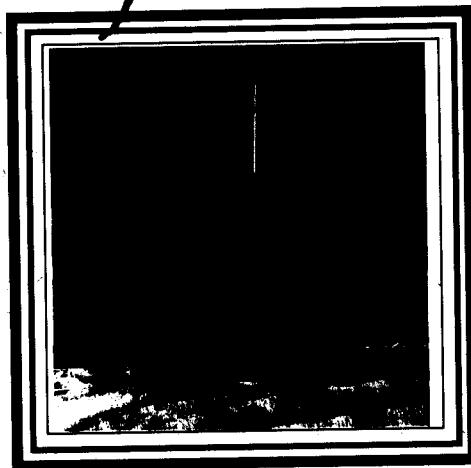


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# MERS

*A Safe Harbor*



COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FISCAL YEAR ENDED DECEMBER 31, 2004

ANNE M. WAGNER  
CHIEF EXECUTIVE OFFICER

LUKE HUELSKAMP  
CHIEF FINANCIAL OFFICER

---



1134 MUNICIPAL WAY LANSING, MICHIGAN 48917  
(517) 703-9030 (800) 767-6377  
[WWW.MERSOFMICH.COM](http://WWW.MERSOFMICH.COM)

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM</b>	County <b>EATON</b>
Audit Date <b>12-31-04</b>	Opinion Date <b>05-20-05</b>	Date Accountant Report Submitted to State: <b>JUNE 24, 2005</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.		X	
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) <b>ANDREWS HOOPER &amp; PAVLIK P.L.C.</b>			
Street Address <b>4295 OKEMOS RD., SUITE 200</b>	City <b>OKEMOS</b>	State <b>MI</b>	ZIP <b>48864</b>
Accountant Signature <i>Jeffrey J Fineris</i>		Date <b>JUNE 24, 2005</b>	

# TABLE OF CONTENTS

## INTRODUCTORY SECTION

Certificate of Achievement .....	1
Letter of Transmittal .....	3
Letter from the Chairperson .....	8
MERS Retirement Board .....	9
Administrative Organization .....	10
Organizational Chart .....	15
Outside Professional Services .....	16

## FINANCIAL SECTION

Independent Auditors' Report .....	17
Management's Discussion and Analysis .....	18
Financial Statements	
Statement of Plan Net Assets .....	24
Statement of Changes in Plan Net Assets .....	25
Notes to Financial Statements .....	26
(The notes to the Financial Statements are an integral part of the Financial Statements)	
Required Supplementary Information	
Schedule of Funding Progress .....	38
Schedule of Employer Contributions .....	38
Notes to the Schedules of Required Supplementary Information .....	39
Supporting Schedules	
Schedule of Administrative Expenses .....	40
Schedule of Investment Expenses .....	41
Schedule of Payments to Consultants .....	42

## INVESTMENT SECTION

Report on Investment Activity	
Introduction	
Defined Benefit Plan .....	43
Investment Objectives and Activity .....	43
MERS Actual Returns versus Goals .....	44
MERS Compared to Market Indices for 2004 .....	44
Growth of a Dollar .....	45
Current Asset Allocation versus Target Allocation .....	46
Total Fund Investment Results .....	46
Schedule of Investment Results Gross of Fees .....	47
Total Equity Portfolio Comparison 2003 versus 2004 .....	48
Total Domestic Equity Portfolio 2004 .....	48
Top Ten Equity Holdings .....	49
Top Ten Fixed Income Holdings .....	50
Real Estate Investments .....	51
Schedule of Investment Fees .....	53
Schedule of Investment Commissions .....	54
Investment Summary for Defined Benefit Plan .....	55

# TABLE OF CONTENTS

Defined Contribution Plan .....	56
Asset Allocation of Defined Contribution Plan .....	56

## ACTUARIAL SECTION

Actuary's Certification Letter .....	59
Summary of Actuarial Assumptions and Methods .....	61
Probabilities of Retirement for Members Eligible to Retire .....	63
Normal Retirement - Service Based Benefit F(N) Adopted .....	64
Early Retirement - Reduced Benefit .....	64
Rates of Withdrawal (Excluding Death) from Active Employment Before Retirement .....	65
Rates of Withdrawal Due to Disability .....	65
Annual Percentage Increase in Salary .....	66
Schedule of Active Member Valuation Data .....	66
Mortality Tables .....	67
Schedule of Retirees and Beneficiaries Added to and Removed from Rolls .....	68
Solvency Test .....	69
Summary of Plan Document Provisions .....	70

## STATISTICAL SECTION

- Retirees in Michigan .....	72
Distribution of Benefit Recipients by Locations .....	73
Schedule of Additions to Plan Net Assets - Defined Benefit Plan .....	74
Schedule of Deductions from Plan Net Assets - Defined Benefit Plan .....	75
Schedule of Benefit Expenses by Type - Defined Benefit Plan .....	75
Schedule of Retired Members by Type of Benefit - Defined Benefit Plan .....	76
Schedule of Retired Members by Type of Option Selected - Defined Benefit .....	77
Schedule of Average Benefit Payments - Defined Benefit Plan .....	78
Defined Contribution Plan Participants and Total MERS Participants .....	78
Comparison of Member and Employer Contributions versus Pension Checks and Refunds - Defined Benefit Plan .....	79
Active Members Per Pension Recipient .....	80
Benefits as Percent of Active Member Pay .....	80
Schedule of Changes in Reserves .....	81
Schedule of Participating Municipalities - Defined Benefit Plan .....	82
Schedule of Participating Municipalities - Defined Contribution Plan .....	94
Schedule of Participating Municipalities - Health Care Savings Program .....	97
Schedule of Participating Municipalities - Retiree Health Funding Vehicle .....	98



# LETTER OF TRANSMITTAL



*Our present is your future*

June 1, 2005

The Retirement Board  
Municipal Employees' Retirement System of Michigan  
1134 Municipal Way  
Lansing, Michigan 48917

Dear Board Members:

It is a pleasure to present the Comprehensive Annual Financial Report (CAFR) of the Municipal Employees' Retirement System of Michigan (MERS) for the fiscal year ended December 31, 2004. This is the 58th year that MERS has provided retirement plan administration to its member municipalities across the great state of Michigan. It was a hallmark year because MERS offered several new insurance products, under the umbrella of Group Health Solutions, to its membership.

MERS, from its inception under state legislature in 1945, continues to provide an avenue for local governing bodies to pool their resources to offer retirement benefits for the welfare of their member employees. Over the years, many advances have been made to improve the benefits and services to members. With that mandate in mind, MERS is proud to offer the same capability in the area of health care.

As a voluntary statewide organization, MERS continues to increase its membership roster. Examples of that growth are found in the Introductory Section. This section includes: Letter of Transmittal, Letter from the Chairperson of the Retirement Board, the GFOA Certificate of Achievement, administrative organizational details, and a review of MERS activities covering both the Defined Benefit (DB) Plan and the Defined Contribution (DC) Plan.

## LETTER OF TRANSMITTAL

This 2004 CAFR also contains the following sections:

- **Financial Section.** Management's Discussion and Analysis (MD&A), report of the independent auditor, and the Retirement System's financial statements and supplemental information for the DB Plan.
- **Investment Section.** Summary of investment activity; an explanation of investment policy, portfolio performance information, and various investment schedules for both the DB and DC plans.
- **Actuarial Section.** Actuary's certification letter and summaries for the DB Plan.
- **Statistical Section.** Statistical information on both plans.

The responsibility for the accuracy and completeness of the financial data and the fairness of the presentation rests with the Chief Executive Officer and the management of MERS.

MERS members, as of December 31, 2004, included employees from 619 municipalities across the state (see page 26).

### **Financial**

The basic financial statements have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) applied on a consistent basis as promulgated by the Governmental Accounting Standards Board and its predecessor, the National Council on Government Accounting. The MD&A provides a narrative introduction, overview, and analysis to accompany the basic financial statements. This Letter of Transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found in the Financial Section immediately following the independent auditor's report (see pages 18-23).

### **Investments – Defined Benefit Portfolio**

The extension of strong U.S. equity market returns through the fourth quarter resulted in a second consecutive year of robust returns in the portfolio. The portfolio returned 14.9 percent for the one year period ending December 31, 2004, and 10.3 percent for the 10-year period. The one-year return places the portfolio in the fourth percentile in The Northern Trust Public Funds Universe. This universe is comprised of 34 plans with a total market value of \$198 billion. The plans range in size from \$54 million to \$33.7 billion with a median market value of \$3.1 billion.

## LETTER OF TRANSMITTAL

The 2004 fourth quarter rebound in the small cap international stock produced returns in excess of 9.12 percent over benchmark. Likewise, MERS domestic equity managers outperformed the Russell 3000 by .93 percent. This plus performance significantly contributed to the portfolio's stellar returns. The portfolio ended the fiscal year with \$4.6 billion in assets.

The fixed income portfolio continued its modest pace during the year, providing marginally positive returns for the year at 7.4 percent versus the Lehman Aggregate Bond Index at 4.3 percent. The Federal Reserve tightening of interest rates during November and December did not negatively influence bond investors from increasing their investment-grade bond positions.

MERS strict adherence to its strategic asset allocation model provides discipline as well as the ability to take advantage of opportunities that occur in the global market place. MERS conducts a strategic asset allocation study every five years and annually rebalances the assets to the selected target asset allocation model.

Please refer to the Investment Section (beginning on page 43) for more detailed comments on the portfolio.

### **Funding**

The most recent Actuarial Valuation, dated December 31, 2003, revealed that the DB Plan has a funding percentage of 78 percent. MERS receives no state funded contributions. Each member municipality is legally responsible for funding the pensions earned by their employees under the provisions of the Michigan Constitution and the MERS Plan Document. Each municipality is a separate trust account in MERS. The pension obligations are paid from that account. MERS does not fund or borrow from one municipality's account to cover another municipality's obligation to pay its pensioners.

## **INITIATIVES**

### **Health Care**

After an extensive three-year period of discovery, MERS expanded the retirement fund's capabilities to include health care. These programs, under the umbrella MERS Group Health Solutions, currently include the Health Care Savings Program, Retiree Health Funding Vehicle for Other Postemployment Benefits (OPEB), and MERS Premier Health. These programs became available to the membership for the first time during the fiscal year and now join the Group Life and Disability Insurance program that was introduced in the fall of 2003.

While this is an exciting and daunting undertaking for MERS, our commitment remains to provide economies of scale, continuity of service, and much needed relief in the area of problematic health care for the communities of Michigan. Volume buying will allow for that economy. Many municipalities are facing

## LETTER OF TRANSMITTAL

declining resources and ever expanding costs in health care. MERS is dedicated to addressing this problem by endeavoring to contain the rising costs faced by our membership.

The Group Life and Disability Insurance program enjoys substantial success with over 5,000 participants enrolled. Collectively, MERS has provided savings of more than \$1 million in premium dollars to the membership. These programs became effective on January 1, 2004, with a renewal date of January 1, 2006, and have a 24 month premium rate guarantee. The Standard Insurance Company of Portland, Oregon administers these programs.

The Health Care Savings Program is designed to be an employer-sponsored program. This allows employers to set aside pretax contributions during an employee's working years to be used after termination of employment for medical expenses (as defined by the Internal Revenue Service). The payouts remain tax-free. This program received a Private Letter Ruling from the IRS and became effective June 1, 2004.

MERS Premier Health is a MERS sponsored medical insurance program for its active and retired members. The program provides quality insurance coverage for health care, vision care, dental care, and prescriptions. MERS applied to the State of Michigan's Office of Financial and Insurance Services in February 2004 to become the first public Multiple Employer Welfare Arrangement (MEWA) in the state. The provisional certificate was granted the following September and final approval was received in December. An interim Board oversees this program which started January 1, 2005.

### **Technology**

MERS continues to expand the use of web-based capabilities to ensure effective communication with the membership.

The new "electronic Payroll and Service System" (ePASS) designed to facilitate the ease of transferring information from the employer to MERS was completed in September 2004. The rollout to the members will be accomplished by region with approximately 50 employers joining the program each month. This will allow enough time to answer questions and ensure that employers are comfortable with the new program.

A new Pension Administration system, MERS Automated Pension System (MAPS), is currently being developed. This software will replace the PeopleSoft pension administration software currently in use. The goal is to expand our capabilities to capture information, eliminate redundant entry, and achieve superior data integrity.

MERS continues to work hard to provide excellent service and retain the trust of our membership. We look back over MERS history with satisfaction and pride, while at the same time remaining committed to proactively addressing the technology needs of the future.

## LETTER OF TRANSMITTAL

### **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to MERS for its Comprehensive Annual Financial Report for the year ended December 31, 2003. This was the 16th consecutive year that MERS has achieved this prestigious award.

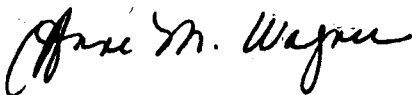
In order to be awarded the Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe this current report continues to meet the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility.

In addition, in 2004 MERS was awarded the GFOA budget award for its 2003 budget submission.

### **Acknowledgments**

This report reflects the best combined efforts of the MERS staff under the leadership of the MERS Retirement Board. I would like to take this opportunity to commend its efforts on creating another outstanding report. Additionally, I want to express my gratitude to the staff, advisors and many other people and organizations who have worked so conscientiously to assure the success of the Municipal Employees' Retirement System of Michigan.

Respectfully submitted,



Anne M. Wagner  
Chief Executive Officer

## LETTER FROM THE CHAIRPERSON



*Our present is your future*

June 1, 2005

Dear Members:

On behalf of the MERS Retirement Board, I am pleased to present the Municipal Employees' Retirement System's 58th Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2004. This financial report provides information on the status of our retirement system. Significant changes that have occurred during the year are highlighted.

Last year, the diversification in the Defined Benefit portfolio delivered a 14.9 percent return for the one-year period and 9.4 percent for the ten-year period. These returns go a long way to recover from the three years of under-performance experienced in 2000-2002. The Board's investment policy continues to focus on preserving the Retirement System's assets while maximizing the long-term growth of those assets.

Retirement seminars and Regional Meetings continued in 2004 both in the home office and around the state. Retirement seminars are designed for those members contemplating retirement in the next three to five years. Regional Meetings cover pension, employee benefits, health care, and insurance topics of interest to employers and employees. The major project undertaken to rewrite the wage and service software, "electronic Payroll and Service System" (ePASS), was completed in September. ePASS expands MERS use of eCommerce to collect payroll information from our participating municipalities.

At the 2004 Annual Meeting, delegates elected me, Dale Walker, Finance Director from the City of Cadillac, and Sally Dreves, Human Resources Technician from Grand Traverse County, to three-year terms (January 1, 2005 - January 1, 2008) on the Board as Officer and Employee members, respectively. The nine member Retirement Board continues to work diligently to serve the membership and fulfill its fiduciary responsibilities. MERS greatly benefits from the Board members' diverse expertise and experience. It is a privilege for me to serve as Chairperson along with trustees of such high caliber and dedication.

If you have any questions regarding this report or other retirement questions, please contact us at (800) 767-6377, or send a letter addressed to MERS, 1134 Municipal Way, Lansing, MI 48917.

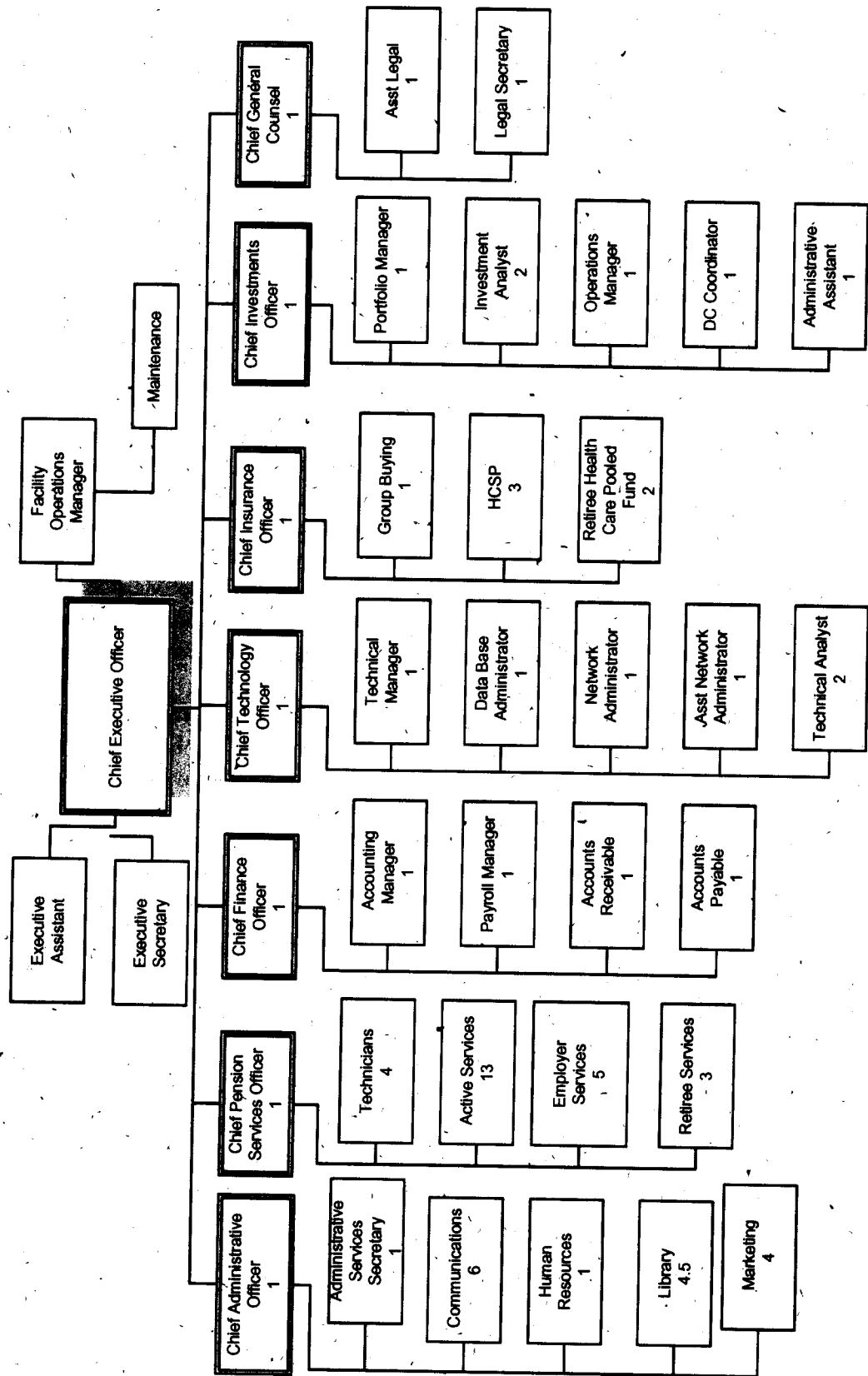
In closing, I wish to thank the Board members and staff for continuing to maintain their high level of commitment and service to the Retirement System's participants. The members of this Retirement System should be very proud of the excellence and dedication presented to you in order that we all may have the necessary funds available to provide for retirement. Our present is your future.

Sincerely,



Dale M. Walker, Chairperson  
MERS Retirement Board

# ORGANIZATIONAL CHART - 2004



## **Outside Professional Services**

### **Professional Consultants**

#### ***Actuary***

Gabriel, Roeder, Smith and Company

#### ***Auditor***

Andrews, Hooper & Pavlik, PLC

#### ***Defined Contribution Plan Third-Party Administrator***

International City/County Management Association Retirement Corporation (ICMA-RC)

#### ***Investment Custodian***

The Northern Trust Company

#### ***Legal Counsel***

Ice Miller Donadio & Ryan

John Eggersten, P.C.

Lisa Ward

Loomis, Ewert, Parsley, Davis & Gotting, P.C.

Miller, Canfield, Paddock & Stone, PLC

#### ***Legislative Consultants***

Karoub Associates

#### ***Medical Advisor***

Associated Physicians

Consulting Physicians

#### ***Security Lending Agent***

The Northern Trust Company

#### ***Systems Implementation and Maintenance***

Gabriel, Roeder, Smith and Company

Logicalis

PeopleSoft USA, Inc.

### **Investment Managers**

#### ***Domestic Equity***

Ariel Capital Management

Armstrong Shaw Associates

Barclays Global Investors

Kennedy Capital Management

Trust Company of the West (TCW) Asset Management

Wasatch Advisors

Wellington Management Company

World Asset Management

#### ***International Equity***

Acadian Asset Management

Barclays Global Investors

Mondrian Investment Advisors

#### ***Fixed Income***

Barclays Global Investors

Evergreen Investments

Reams Asset Management

Western Asset Management

#### ***Real Estate***

Townsend Group Consultants

AEW Capital Management

Guggenheim Structures Real Estate Fund

Hancock Timber Resources

J.P. Morgan Investment Management

KBS Realty Advisors

Lend Lease Rosen

Prudential Property Investment

SSR Realty Advisors, Inc.

The Campbell Group

UBS Realty Investors, LLC

Urdang Investment Management

# Independent Auditor's Report



**ANDREWS HOOPER & PAVLIK P.L.C.**

Certified Public Accountants

Independent Auditor's Report

Municipal Employees' Retirement System of Michigan Retirement Board:

We have audited the accompanying statements of plan net assets of the Municipal Employees' Retirement System of Michigan as of December 31, 2004, and the related statements of changes in plan net assets for the year then ended. These financial statements are the responsibility of the management of the Municipal Employees' Retirement System of Michigan. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the 2003 financial statements and, in our report dated April 29, 2004, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Municipal Employees' Retirement System of Michigan as of December 31, 2004, and the changes in its financial status for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information and supporting schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The required supplementary information and supporting schedules are the responsibility of the Municipal Employees' Retirement System of Michigan's management. The Schedules of Funding Progress and Employer Contributions and related notes and the supporting schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplemental information. However, we did not audit the information and express no opinion on it. The Introductory, Investment, Actuarial, and Statistical Sections were not audited by us and, accordingly, we express no opinion on those sections.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 20, 2005 on our consideration of the Municipal Employees' Retirement System of Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Andrews Hooper & Pavlik P.L.C.*

Okemos, Michigan  
May 20, 2005

4295 Okemos Road, Suite 200 • Okemos, Michigan 48864 • ph 517.487.5000 fx 517.487.9535 • www.ahppc.com

## Management's Discussion and Analysis



This narrative overview and analysis of MERS financial condition for fiscal year ended December 31, 2004, is presented in conjunction with the Chief Executive Officer's Letter of Transmittal. The Financial Section is comprised of two basic financial statements with explanatory notes, two required supplementary schedules with explanatory notes, three expense schedules, summation of 2004 financial highlights, analysis of plan net assets, investment activity, historical trends, and funding status.

MERS was created to provide retirement, survivorship, and disability benefits to qualified members and their beneficiaries. The cost of administering such benefits includes: (1) payment of monthly benefits as designated by the Defined Benefit, Defined Contribution Plans, Health Care Savings Program and Retiree Health Funding Vehicle (2) refund of member contributions requested by employees that separate from employment, and (3) payment of all administrative and investment costs associated with administering the plans.

### **Financial Statements**

1. Statement of Plan Net Assets (p.24)
2. Statement of Changes in Plan Net Assets (p. 25)
3. Notes to Basic Financial Statements (p. 26)
4. Comparison Statement of Plan Net Assets (p. 20)
5. Comparison Statement of Changes in Plan Net Assets (p. 21)

The Defined Benefit, Defined Contribution Plan, Health Care Savings Program, and Retiree Health Funding Vehicle Program are premised upon long-term investing. Therefore, current financial statements alone do not provide the total perspective to properly assess the retirement system's long-term financial condition.

The "Statement of Plan Net Assets" and "Statement of Changes in Plan Net Assets" provide the current financial condition of the 619 individual municipal Defined Benefit Plans, 92 individual municipal Defined Contribution Plans, seven Health Care Savings Programs, and three Retiree Health Funding Vehicle Programs administered by MERS. The "Comparison Statement of Plan Net Assets" and "Comparison Statement of Changes in Plan Net Assets" provide a comparative summary of the financial condition of the retirement system as a whole.

### **Required Supplemental Information**

1. Schedule of Funding Progress (p. 38)
2. Schedule of Employer Contributions (p. 38)
3. Notes to the Schedules of Required Supplementary Information (p. 39)

The "Schedule of Funding Progress" shows the progress MERS has made in accumulating sufficient assets to pay future retirement benefits when due. The schedule sets forth the actuarially funded status of the Defined Benefit Plan with historical trends in funding. The "Schedule of Employer Contributions" shows the current annual employer contributions and the historical trend of employer contributions. From a long-term investment perspective, these schedules provide a better understanding of the changes over time in the funded status of the plan.

***Expense Schedules***

1. Schedule of Administrative Expenses (p. 40)
2. Schedule of Investment Expenses (p. 41)
3. Schedule of Payments to Consultants (p. 42)

The expense schedules summarize all expenses associated with administering the Defined Benefit Plan.

***Financial Highlights***

The following financial highlights occurred during fiscal year ended December 31, 2004:

- Total plan net assets increased by \$577 million during the 2004 fiscal year. This was primarily due to net gains in investments of \$597 million dollars.
- Total Defined Benefit and Defined Contribution Plan pension benefits paid to retirees and beneficiaries increased \$29 million to a total of \$254 million. Combined Defined Contribution and Defined Benefit pension payments exceeded employer and employee contributions by a slight margin in 2004. The cash flow trend in the past few years has shown pension benefit payments exceeding contributions. This is normal plan cycling as the plan matures and is due in large part to baby boomers reaching retirement age and drawing pension benefits.
- Refunds of Defined Benefit Plan employee contributions paid to former members upon termination of employment increased over the previous year by \$1.7 million.
- Transfers from the Defined Benefit Plan to the Defined Contribution Plan decreased by \$4 million.
- Total Defined Benefit and Defined Contribution employee contributions decreased by 9% to \$60 million, and employer contributions increased by 6% to \$183 million. Again, the majority of these increases were due to new municipalities joining MERS. Employer and employee contributions from new municipalities were \$14 million in 2004 compared to \$33 million in 2003. Employer contributions have increased in recent years due to municipalities adopting enhanced benefits and the market declines of 2000-2002.
- Administrative expenses totaled \$10 million. Much of this increase was due to the added costs of hiring additional staff and depreciation of software, computer servers and office equipment used in administering its Defined Benefit Plan to 61,346 members and Defined Contribution Plan to 5,754 members.
- Investment expenses totaled \$12 million. The biggest expense is due to higher investment manager fees increasing to \$11 million. This is not unexpected with the market increases of the past year.

**Using this Financial Report**

Because of the long-term nature of a defined benefit plan, financial statements alone cannot provide sufficient information to properly reflect the retirement system's ongoing plan perspective. This financial report consists of two financial statements and two required schedules of historical trend information. The "Statement of Plan Net Assets" and "Statement of Changes in Plan Net Assets" (pages 24-25) provide information about the activities of the 619 individual municipal pension plans administered by MERS in its Defined Benefit Plan and the 82 individual municipal plans in the Defined Contribution Plan, as well as comparative summary information about these activities for the retirement system as a whole.

The "Schedule of Funding Progress" (page 38) includes historical trend information about the actuarially funded status of the plan from a long-term, ongoing plan perspective, and the progress made in accumulating sufficient assets to pay benefits when due. The "Schedule of Employer Contributions" (page 38) presents historical trend information about the annual actuarially required contributions of employers and the actual contributions made by employers in relation to this requirement. These schedules provide information that contributes to understanding the changes over time in the funded status of the plans.

**Comparison Statement of Plan Net Assets**

Assets	As of	As of	Increase (Decrease)	
	December 31, 2004	December 31, 2003	Amount	Percent
Cash and Short-Term Investments	\$ 197,094,797	\$ 249,823,568	\$ (52,728,771)	-21.11%
Receivables	119,378,154	164,218,943	(44,840,789)	-27.31%
Interfund Receivables	436,427	-	436,427	100.00%
Investments, at fair value	4,610,306,560	4,035,732,696	574,573,864	14.24%
Invested Securities Lending Collateral	659,513,777	401,662,820	257,850,957	64.20%
Other Assets/Prepays	465,270	608,994	(143,724)	-23.60%
Net Capital Assets	2,772,594	3,010,286	-(237,692)	-7.90%
<b>Total Assets</b>	<b>5,589,967,580</b>	<b>4,855,057,307</b>	<b>734,910,273</b>	<b>15.14%</b>
<b>Liabilities</b>				
Purchase of Investments	159,923,488	259,995,239	(100,071,751)	-38.49%
Securities Lending Collateral	659,513,777	401,662,820	257,850,957	64.20%
Administrative and Investment Costs	3,772,173	3,920,891	(148,718)	-3.79%
Interfund Payables	436,427	-	436,427	100.00%
Unspecified Contributions	711	-	711	100.00%
<b>Total Liabilities</b>	<b>823,646,576</b>	<b>665,578,950</b>	<b>158,067,626</b>	<b>23.75%</b>
<b>Net assets held in trust for pension benefits</b>	<b>\$ 4,766,321,004</b>	<b>\$ 4,189,478,357</b>	<b>\$ 576,842,647</b>	<b>13.77%</b>

## Comparison Statement of Changes in Plan Net Assets

	Year ended December 31, 2004	Year ended December 31, 2003	Increase (Decrease) Amount	Increase (Decrease) Percent
<b>Additions</b>				
Contributions	\$ 243,019,370	\$ 238,651,367	\$ 4,368,003	1.83%
Transfers from Defined Benefit Plan	321,966	3,839,296	(3,517,330)	-91.61%
Transfers from Other Plans and Other Items	5,356,930	199,702	5,157,228	2582.46%
Investment net income(loss) investing activities	596,908,057	816,110,067	(220,102,010)	-26.97%
Investment net income-securities lending	1,341,339	827,198	514,141	62.15%
Miscellaneous Income	819,466	- 822,347	(2,881)	-0.35%
<b>Total Additions</b>	<b>846,867,128</b>	<b>1,060,449,977</b>	<b>(213,582,849)</b>	<b>-20.14%</b>
<b>Deductions</b>				
Benefits	253,918,782	225,227,429	28,691,353	12.74%
Refunds of Contributions	5,252,652	3,542,264	1,710,388	48.29%
Special Expenses and Fees	387,031	378,334	8,697	2.30%
Transfers to Defined Contribution Program	321,966	3,839,296	(3,517,330)	-91.61%
Administrative Expense	10,144,051	8,049,500	2,094,551	26.02%
<b>Total Deductions</b>	<b>270,024,482</b>	<b>241,036,823</b>	<b>28,987,659</b>	<b>12.03%</b>
<b>Net Increase (decrease)</b>	<b>576,842,646</b>	<b>819,413,154</b>	<b>(242,570,508)</b>	<b>-29.60%</b>
<b>Net assets held in trust for pension benefits</b>				
Balance Beginning of Year	4,189,478,357	3,370,065,203	819,413,154	24.31%
Balance End of Year	<b>\$ 4,766,321,003</b>	<b>\$ 4,189,478,357</b>	<b>\$ 576,842,646</b>	<b>13.77%</b>

*Analysis of Plan Net Assets*

Combined plan net assets increased by \$577 million over the previous fiscal year. Looking at additions to and deductions from plan net assets, the increase in net assets was primarily attributable to economic conditions (the stock market's rise) and municipalities increasing benefit multipliers and adopting benefit enhancements resulting in higher employer/employee contributions. Deductions from plan net assets were attributable to a 13% increase in pension benefit payouts to a greater number of retirees and post-retirement cost-of-living increases.

Employer and employee contributions increased \$4 million because of higher required actuarial contribution rates resulting from increases in salaries, benefit enhancements, and an increase in the number of employees.

In determining contribution rates, MERS actuary normally uses a five-year smoothing method to record market gains and losses, and this has tempered many of the market losses over the past three years. For 2003, the Retirement Board adopted a one time ad hoc adjustment to aggregate the yet unrecognized market gains and losses from 1999-2002 with the 2003 market gain. For 2003 no gain or loss was recognized. The aggregate loss amount of \$388,778,035 will be recognized in four equal dollar installments in 2004-2007. In 2004, the normal five-year smoothing method was reinstituted. Employers are also shifting more of the responsibility for contribution requirements onto employees to pay for better benefit plans.

MERS has capital assets of approximately \$3 million, most of which are software and computer servers needed to run the retirement system's programs.

MERS has no long-term liabilities. The bulk of MERS liabilities at year end related to investment purchases that did not settle until 2005.

### ***Investment Activities***

The total fund investment performance on a relative basis to benchmarks was excellent. The positive gross return of 14.9% was substantially above the long-term net 8% actuarial return assumption target for the year. On both a three- and five-year basis, the average returns of 9.5% and 4.6%, respectively, compared favorably to the benchmarks. Net investment income (net increase in fair value, plus investment earnings, less investment administrative expenses) was \$596 million for the year. The stock market is in its second year of positive returns after three years of negative returns. A further detailed analysis of investment returns may be found in the Investment Section.

Retirement system investments are managed to control the extent of downside risk to which assets are exposed while maximizing long-term gain potential. This positions the retirement system to limit the impact of adverse market conditions. Portfolio diversification by asset class and style is an important element of investment risk control.

Investment activity is governed by the "prudent person rule." The prudent person rule establishes a standard for all fiduciaries that includes anyone who has authority with respect to the retirement system. The prudent person rule states that fiduciaries shall discharge their duties solely in the interest of the retirement system participants and beneficiaries and with the degree of diligence, care, and skill that a prudent person would ordinarily exercise under similar circumstances.

The prudent person rule permits the Board to establish an investment policy based upon certain investment criteria and allows for the delegation of investment authority to professional investment managers. Investment constraints are outlined, including the appropriate degree of risk. Investment managers are hired to execute the investment policy. They have full discretion for investment decisions within statutory authority, Board policy, and their respective guidelines. A list of investment managers under contract with the retirement system as of December 31, 2004, is found on page 16 of this report. A summary of the total retirement system's assets can be found on page 24.

### ***Historical Trends***

Accounting standards require that the "Statement of Plan Net Assets" state asset values at fair value and include only benefits and refunds due plan members and beneficiaries and accrued investment and administrative expenses as of the reporting date. Information regarding the actuarial funding status of the Defined Benefit Plan is provided in the "Schedule of Funding Progress" (page 38). The asset value stated in the "Schedule of Funding Progress" is the actuarial value of assets as determined by calculating the ratio of market value to book value of assets over a five-year period. The funded ratio declined from 80% to 79% for the 2003 valuation. The decline, while slight, was expected. Investment losses from 2000-2002, combined with municipalities adopting better benefit plans, influenced the funded ratio. This percentage has declined over the last five years. The actuarial assumptions used in the most recent valuation are identified in "Notes to the Schedules of Required Supplementary Information" (page 39).

Annual required employer contributions as determined by the actuary and the actual contributions made by employers are provided in the "Schedule of Employer Contributions" (page 38). This schedule indicates that employers are meeting their actuarially required contribution payments.

MERS overall financial condition improved for the fiscal year ended 2004, and the plan remains stable and viable for the years to come. The market upturn in 2004 and the downturns of 2000-2002 are historically considered to be normal market cycles in the overall economic process.

***Funding Status***

A pension plan is well funded when it has sufficient assets invested to meet all expected future obligations to participants. The greater the level of funding, the larger the ratio of assets to actuarial accrued liability. While the plan is not totally funded, annual contributions are being made at an actuarially determined rate to reach full funding. There is no single all-encompassing test for measuring a retirement system's funding progress and current funded status. However, some common indicators of the progress that a retirement system has achieved in funding their obligations include observing the changes over time of the ratio of valuation assets to actuarial accrued liabilities, and the pattern of the unfunded actuarial accrued liability as a percentage of active payroll. These ratios and numbers are found in the Required Supplementary Information.

MERS Retirement Board has adopted funding methodology for the retirement system to achieve the following major objectives:

- Develop level required contribution rates as a percentage of payroll;
- Finance benefits earned by present employees on a current basis;
- Accumulate assets to enhance members' benefit security;
- Produce investment earnings and interest on accumulated assets to help meet future benefit costs;
- Make it possible to estimate the long-term actuarial cost of proposed amendments to system provisions; and
- Assist in maintaining the retirement system's long-term financial viability.

The actuarial method for calculating the accrued liability for all plans is Entry Age Normal with the objective of maintaining employer contributions approximately level as a percent of member payroll. A detailed discussion of the funding method is provided in the Actuarial Section of this report starting on page 59. Based upon the valuation results, MERS continues to be in sound financial health in accordance with actuarial principles of level percent of payroll financing.

# Financial Section

## Statement of Plan Net Assets as of December 31, 2004

	December 31, 2004				December 31, 2003	
	Defined Benefit Plan	Defined Contribution Plan	Health Care Savings Program	Retiree Health Funding Vehicle	Total Trust Funds	Total Trust Funds
<b>Assets</b>						
Cash and Short-Term Investments	\$ 175,271,234	\$ 21,808,563	\$ 15,000		\$ 197,094,797	\$ 249,823,568
Receivables						
Employer Contributions	21,266,351				21,266,351	16,305,155
Plan Member Contributions	4,647,766				4,647,766	3,309,342
Sale of Investments	81,792,243				81,792,243	129,187,161
Investment Income	9,074,331				9,074,331	10,701,627
Interfund Receivables	198,458		129,272	\$ 108,697	436,427	
Loans/Other	1,406,014	1,191,449			2,597,463	4,715,658
Total Receivables	118,385,163	1,191,449	129,272	108,697	119,814,581	164,218,943
Investments, at fair value						
Domestic Fixed Income	1,208,428,240	6,676,517	370,470	353,523	1,215,828,750	1,271,149,597
International Fixed Income	222,265,853		68,141	65,023	222,399,017	
Domestic Equities	2,026,965,116	48,144,948	621,411	592,984	2,076,324,459	1,897,349,411
Hedged Fund	38,312,497		11,746	11,208	38,335,451	
International Equities	661,750,804	2,741,138	202,874	193,594	664,888,410	528,667,831
Private Equity	67,884,364		20,811	19,859	67,925,034	68,652,270
Real Estate	260,928,156		79,993	76,334	261,084,483	221,889,457
Balanced Funds		63,520,956			63,520,956	48,024,130
Total Investments	4,486,535,030	121,083,559	1,375,446	1,312,525	4,610,306,560	4,035,732,696
Invested Securities Lending Collateral	659,513,777				659,513,777	401,662,820
Prepaid Expenses	465,270				465,270	608,994
Fixed Assets, at cost, net of accum. depreciation	2,772,594				2,772,594	3,010,286
Total Assets	5,442,943,068	144,083,571	1,519,718	1,421,222	5,589,967,580	4,855,057,307
<b>Liabilities</b>						
Purchase of Investments	159,923,488				159,923,488	259,995,239
Securities Lending Collateral	659,513,777				659,513,777	401,662,820
Administrative and Investment Costs	3,772,173				3,772,173	3,920,891
Interfund Payables	237,969		195,888	2,570	436,427	
Unspecified Contributions			711		711	
Total Liabilities	823,447,407		196,599	2,570	823,646,576	665,578,950
Net assets held in trust for pension benefits	\$ 4,619,495,661	\$ 144,083,571	\$ 1,323,119	\$ 1,418,652	\$ 4,766,321,003	\$ 4,189,478,357

The "Schedule of Funding Progress" is presented in the Required Supplementary Information in the Financial Section of this report. The accompanying notes are an integral part of these Financial Statements.

# Financial Section

## Statement of Changes in Plan Net Assets for the year ended December 31, 2004

	Year Ended December 31, 2004					Year Ended December 31, 2003
	Defined Benefit Plan	Defined Contribution Plan	Health Care Savings Program	Retiree Health Funding Vehicle	Total Trust Funds	Total Trust Funds
<b>Additions</b>						
Contributions						
Employer Contributions	\$ 167,942,936	\$ 12,664,264	\$ 1,300,103	\$ 1,312,526	\$ 183,219,829	\$ 172,387,579
Plan Member Contributions	55,408,705	4,301,952	88,884		59,799,541	66,263,788
Transfers from Defined Benefit Plan						
Employer		320,682			320,682	3,732,569
Plan Member		1,284			1,284	106,727
Transfers from Other Plans and Other Items		5,356,930			5,356,930	199,702
Total Contributions and Transfers	223,351,641	22,645,112	1,388,987	1,312,526	248,698,266	242,690,365
<b>Investment Income</b>						
Net Appreciation (Depreciation) in Fair Value of Plan Investments	526,860,970	10,410,317	128,680	108,716	537,508,683	754,270,000
Interest Income	41,906,168		1,340		41,907,508	43,599,842
Dividend Income	23,447,373				23,447,373	23,123,127
Real Estate Operating Income, net	4,727,762				4,727,762	4,151,174
Commission Recapture Income	478,380				478,380	704,733
	597,420,653	10,410,317	130,020	108,716	608,069,706	825,848,876
<b>Less Investment Expenses</b>	12,061,649				12,061,649	9,738,809
Net Investment Income (Loss)	585,359,004	10,410,317	130,020	108,716	596,008,057	816,110,067
From Security Lending Activities						
Security Lending Income	7,513,231				7,513,231	5,294,319
Security Lending Expenses						
Borrower Rebates	5,725,036				5,725,036	4,112,667
Management Fees	446,856				446,856	354,454
Total Securities Lending Expenses	6,171,892				6,171,892	4,467,121
Net Income from Security Lending Activities	1,341,339				1,341,339	827,198
Total Net Investment Income (Loss)	586,700,343	10,410,317	130,020	108,716	597,349,396	816,937,265
Miscellaneous Income	819,466				819,466	822,347
	810,871,450	33,055,429	1,519,007	1,421,242	846,867,128	1,060,449,977
<b>Deductions</b>						
Benefits	247,454,263	6,453,035	11,484		253,918,782	225,227,429
Refunds of Contributions						
Employer	1,727,570				1,727,570	
Plan Member	3,525,082				3,525,082	3,542,264
Special Expenses and Fees	387,031				387,031	378,334
Transfers to Defined Contribution Plan						
Employer	320,682				320,682	3,732,569
Plan Member	1,284				1,284	106,727
Administrative Expense	9,957,057		184,404	2,590	10,144,051	8,049,500
	263,372,969	6,453,035	195,888	2,590	270,024,482	241,036,823
<b>Net Increase (decrease)</b>	547,498,481	26,602,394	1,323,119	1,418,652	576,842,646	819,413,154
<b>Net assets held in trust for pension benefits</b>						
Balance Beginning of Year	4,071,997,180	117,481,177			4,189,478,357	3,370,065,203
Balance End of Year	\$ 4,619,495,661	\$ 144,083,571	\$ 1,323,119	\$ 1,418,652	\$ 4,766,321,003	\$ 4,189,478,357

The accompanying notes are an integral part of these Financial Statements.

## Notes to Basic Financial Statements

### YEAR ENDED DECEMBER 31, 2004

#### 1. Reporting Entity and Plan Description

The Municipal Employees' Retirement System of Michigan (MERS) is an agent multiple-employer, statewide, public employee pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document, as revised. MERS was established to provide retirement, survivor, and disability benefits on a voluntary basis to the State of Michigan's local government employees. The MERS Plan Document provides for Defined Benefit and Defined Contribution Plans, and Health Care Savings and Retiree Health Funding Vehicle Programs. See Notes 6-8 for the Defined Contribution Plan, Health Care Savings Program, and Retiree Health Funding Vehicle (pages 35-36).

Pursuant to Act 220, on August 15, 1996, MERS became an independent public non-profit corporation, which is an instrumentality of the participating municipalities and courts. Prior to that time, MERS was a component unit of the State of Michigan and operated within the Department of Management and Budget. MERS is now administered solely by a nine-member Retirement Board consisting of the following members, each of whom, except for the retiree member and the Retirement Board appointees, shall be from a different county at the time of election:

Two members appointed by the Retirement Board who have knowledge or experience in retirement systems, administration of retirement systems, or investment management or advisory services.

One member who is a retiree of the retirement system, nominated by the Retirement Board and elected by the delegates to an annual meeting of the retirement system.

Three members of the retirement system, who are officers of a participating municipality or of a participating court, who shall be elected as officer board members.

Three employee members of the retirement system who are not officers of a participating municipality or of a participating court, who shall be elected as employee board members.

#### MERS Participating Municipalities as of December 31, 2004

Counties	65
Cities and Villages	241
Townships	64
County Road Commissions	56
Authorities, Districts and Others	177
Closed Groups	16
Total	<u>619</u>

The regular term of office for members of the Retirement Board is three years. Members of the Retirement Board serve without compensation with respect to their duties, but are reimbursed by the retirement system for their actual and necessary expenses incurred in the performance of their duties.

Any municipality within the state may elect to become a participating member of MERS by a majority vote of the municipality's governing body or by an affirmative vote of the qualified electors. A municipality may elect to terminate participation by an affirmative vote of the qualified electors. Changes in benefit coverage are available to bargaining units after approval by a majority vote of the municipality's governing body.

**MERS Defined Benefit Membership as of December 31, 2004**

**Retirees and Beneficiaries Currently Receiving Benefits**

Retirement annuities	15,045
Survivor annuities	3,220
Disability annuities	<u>1,008</u>
Total	<u>19,273</u>

Vested former members 5,301

Current active employees	<u>36,772</u>
Total Membership	<u>61,346</u>

Benefit plans and provisions are established by the Retirement Board. All benefits vest after six, eight or ten years of service depending on the plan adopted by the municipality's governing body. The standard retirement age is 60 years. However, employees may retire after reaching several combinations of age and years of service to receive reduced early retirement benefits. Municipalities may also adopt various other benefit plan options allowing retirement at an earlier age with unreduced benefits based upon combinations of age and years of service, or just years of service. MERS also provides nonduty disability and nonduty death benefits to employees after vesting requirements are met. The vesting requirements provision is waived for duty disability and duty death benefits. Benefits are paid monthly over the employee's or survivor's lifetime and are equal to a specific percentage of the employee's final average compensation times the number of years of credited service. The specific percentage depends on the benefit plan or plans adopted by each municipality for its employees.

Pursuant to the Constitution of the State of Michigan, "The accrued financial benefits of each pension plan and retirement system of the State and its political subdivisions shall be a contractual obligation thereof which shall not be diminished or impaired thereby. Financial benefits arising on account of service rendered in each fiscal year shall be funded during that year and such funding shall not be used for financing unfunded accrued liabilities." Employees contribute to the retirement system at rates that range from 0 to 22.80% depending on the benefit plan adopted by the municipality. If an employee leaves employment or dies before becoming eligible for retirement benefits, accumulated employee contributions (plus interest) are refunded to the employee or designated beneficiary upon application.

The Defined Benefit Plan is tax-qualified and subject to the Internal Revenue Code (IRC). These regulations include the taxability of pensions, annual compensation limits, and benefit limitations.

Under the Code, the major portion of a retiree's pension is immediately taxable upon distribution. Pursuant to IRC section 72(d), any "after tax contributions" are recovered tax-free over the life expectancy of the retiree (or beneficiary, if applicable).

IRC section 401(a)(17) limits the amount of compensation that an active employee can receive for pension credit and, correspondingly, limits the amount of employee contributions. Compensation in excess of the 401(a)(17) limit (currently \$205,000 for 2004 and increasing to \$210,000 in 2005) will not be credited by MERS. Employee contributions in excess of the IRS limit will not be collected or accepted, nor figure into final average compensation for benefit purposes.

In addition, IRC section 415 imposes certain limitations on pension benefit payments. Any amounts that exceed the limitations shall be paid from a Qualified Excess Benefit Plan Arrangement (QEBA), as authorized by IRC section 415(m) and Michigan Compiled Law 38.1686. The QEBA shall be a separate portion of the plan and is annually funded by the affected participating municipality or court. The Retirement Board established a QEBA in 2003 solely for the purpose of providing to retirees and beneficiaries that portion of the retirement allowance exceeding the section 415 limits and otherwise not payable under the terms of the plan. Retirees and beneficiaries do not have an election, directly or indirectly, to defer compensation to the QEBA.

## **2. Summary of Significant Accounting Policies**

### **Reporting Entity**

The Retirement Board is responsible for administration of the retirement system, has fiduciary responsibility for the investment of assets, and oversees all funds included in these financial statements. The Retirement Board appoints the Chief Executive Officer who manages and administers the retirement system under the supervision and direction of the Board.

Since MERS is an independent public corporation, MERS financial statements are not included in the financial statements of any other organization. MERS is the only entity included in this financial report.

The costs of administering the plan are allocated out to the municipalities along with investment gains and losses on a quarterly basis.

### **Basis of Accounting**

The financial statements for MERS are prepared on the accrual basis in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Employer and employee contributions are recognized when due pursuant to formal commitments, as well as statutory or contractual requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

### **GASB 27**

Governmental Accounting Standards Board (GASB) Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers," requires certain changes in reporting pensions by employers. The following section is required and pertains to MERS staff only. Prior to separation from the State of Michigan on August 25, 1996, the pension liability for MERS staff remained the obligation of its official employer, the State of Michigan. Therefore, MERS has no pension liability for staff prior to August 25, 1996, when it privatized and began independent payroll processing.

## Financial Section

The Retirement Board, as an employer, elected to become a participating municipality in MERS Defined Benefit Plan to provide pension benefits for MERS staff. Vesting occurs after six years of credited service. Normal retirement age is 60, although an employee may retire at age 55 with 30 years of credited service. The annual pension benefit is calculated by multiplying the employee's years of credited service by 2.25% and then multiplying it by the Final Average Compensation (FAC) based on the highest consecutive three years of compensation. MERS contributed 9.92% of compensation in 2004; employees contributed 2% of compensation in 2004.

The following pension information for GASB 27 applies to MERS staff only:

### Actuarial Accrued Liability from December 31, 2003 and December 31, 2002, Actuarial Valuations

	2003	2002
Retirees and beneficiaries currently receiving benefits	\$ 141,105	\$ 143,315
Vested former members not yet receiving benefits	17,358	16,015
Nonvested terminated employees (pending refunds of accumulated member contributions)	12,660	-
Current employees		
Accumulated employee contributions, including allocated investment income	380,673	246,835
Employer financed	1,841,220	1,246,034
Total Actuarial Accrued Liability	2,393,016	1,652,199
Net assets available for benefits at actuarial value (\$1,837,500 and \$1,163,459 at market value for December 31, 2003, and 2002, respectively)	2,012,358	1,464,160
Unfunded actuarial accrued liability	\$ 380,658	\$ 188,039

### Three-Year Trend Information Schedule of Employer Contributions

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2002	\$ 146,906	100%	\$ -
December 31, 2003	162,168	100%	-
December 31, 2004	192,024	100%	-

## Schedule of Funding Progress

Actuarial Valuation December 31	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Over) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2001	\$ 1,068,314	\$ 1,243,965	\$ 175,651	85.80%	\$ 1,970,436	8.91%
2002	1,464,160	1,652,199	188,039	88.60	2,305,146	8.16
2003	2,012,358	2,393,016	380,658	84.10	2,678,027	14.21

### Fair Value of Investments

In accordance with GASB 25, plan investments are presented at fair value. Short-term investments are valued at cost plus accrued interest, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based upon equivalent values of comparable securities with similar yield and risk. Independent appraisals are the basis for valuing the fair value of real estate. Other investments that do not have established markets are recorded at an estimated fair value.

### Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation. Items of software, equipment, and leasehold improvements are capitalized if the value exceeds \$5,000. These assets are depreciated on a straight-line basis and their estimated lives are either three or five years. Office equipment, software, and computers have a three- to five-year life.

### Total Columns on Statements

"Total" columns on the "Statement of Plan Net Assets" and "Statement of Changes in Plan Net Assets" are presented to facilitate financial analysis. Amounts in these columns do not present the plan net assets and changes in plan net assets in conformity with the U.S. GAAP nor is such data comparable to a consolidation. Transactions between the Defined Benefit Plan, the Defined Contribution Plan, Health Care Savings Program and Retiree Health Funding Vehicle have not been eliminated from the "Total" columns.

## 3. Contributions and Reserves

### Contributions

Contribution funding requirements are actuarially determined using the "entry age normal" actuarial cost method and are based upon the benefit plan adopted by the municipality. Some municipalities fund their entire pension obligations solely from employer contributions. Other municipalities jointly fund pension obligations from employee and employer contributions. Monthly employee contributions are based upon a percentage of actual compensation as determined by an annual actuarial valuation. Employer contributions are based upon projected compensation as determined by an annual actuarial valuation. Employee contributions are held in individual member accounts that are currently credited with 1.5% interest annually. The employee contribution rates vary from 0% to 22.80% according to the benefit plan adopted. See "Schedule of Employer Contributions" (page 38).

### **Reserves**

Three Reserves have been established pursuant to the MERS Defined Benefit Plan Document. See "Schedule of Changes in Reserves" (page 81).

- **Reserve for Employee Contributions:** Employee contributions and interest are credited to this reserve. Also credited to the reserve are monies received from the purchase of service credit and monies received in repayment of previously refunded contributions. The reserve is reduced by amounts paid to employees who terminate employment and request refunds and by amounts transferred into the "Reserve for Employer Contributions and Benefit Payments" upon an employee's retirement. Interest is credited to each employee's account in December of each year based on the accumulated balance from the prior December 31. The current allocation rate of interest is set by the Retirement Board at 1.5%. The reserve's balance at year end December 31, 2004, is \$434,232,821. The "Reserve for Employee Contributions" was fully funded as of the December 31, 2003, actuarial valuation.
- **Reserve for Employer Contributions and Benefit Payments:** All employer contributions are credited to this reserve. Net income is allocated to this reserve from the "Reserve for Expenses and Undistributed Income." At retirement, an employee's accumulated contributions, if any, including interest, are transferred into this reserve from the "Reserve for Employee Contributions." Monthly benefits paid to retirees reduce this reserve. The December 31, 2004, balance is \$4,185,262,840. The unfunded liability was \$1,208,255,375 (based on the actuarial value of assets) as of the December 31, 2003, Actuarial Valuation.
- **Reserve for Expenses and Undistributed Investment Income:** All investment earnings and all other monies received that are not dedicated to other reserves are credited to this reserve. All administrative and investment expenses are paid from this reserve. Transfers from this reserve to the "Reserve for Employer Contributions and Benefit Payments" are at allocation rates determined by the Retirement Board. In 2004, the Retirement Board allocated 100% from the "Reserve for Expenses and Undistributed Investment Income" to the "Reserve for Employer Contributions and Benefit Payments" leaving a zero balance at year end.

### **4. Investments**

#### **Investments**

The Retirement Board has the fiduciary responsibility and authority to oversee the investment portfolio. Various professional investment managers are contracted to manage the retirement system's assets. All investment decisions are subject to statutory regulations imposed under the Michigan Public Employees Retirement Systems' Investment Act, 1965 PA 314, as amended, and the investment policy established by the Retirement Board. Michigan law allows diverse investment in stocks, corporate and government bonds, mortgages, real estate, alternative investments, and other investments. The act sets forth prudence standards and requires that the assets of a retirement system be invested solely in the interest of the participants and beneficiaries. The investments shall be made for the exclusive purpose of providing benefits to the participants and the participants' beneficiaries, and defraying reasonable expenses of the retirement system.

The Retirement Board's investment policy requires independent performance measurement of investment managers and establishes total return objectives for the total portfolio and major categories of investments. As of December 31, 2004, all securities held met the required statutory provisions and Retirement Board policy. As of the same dates, no investments were in default or subject to bankruptcy proceedings. MERS did not hold a single organization's securities that exceeded 5% of the plan's net assets available for benefits as of December 31, 2004.

## Financial Section

### Cash and Deposits

Cash deposits are classified according to credit risk to give an indication of the level of risk assumed by MERS. For custodial credit risk, the bank balances of deposits are disclosed.

- Category 1 Insured or collateralized with securities held by MERS or its agent in MERS name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in MERS name.
- Category 3 Uncollateralized or collateralized with securities held by the pledging financial institution or by its trust department or agent but not in MERS name.

### MERS Cash as of December 31, 2004

(Expressed in thousands)	Category			Bank Balances Not Subject to Classification	Bank Balance	Book Value
	1	2	3			
Operating Cash			\$ 920		\$ 920	\$ 1,172
Investment Cash			253		253	49
	\$ -	\$ -	\$ 1,173	\$ -	\$ 1,173	\$ 1,221

### Securities Lending

MERS policy authorizes participation in securities lending program administered by its global custodian, the Northern Trust Company. MERS receives income as the owner of securities, as well as income from the lending of those securities. There are no dividends or coupon payments owing on the securities on loan. Securities lending earnings are credited to participating clients on approximately the fifteenth day of the following month. The securities loans are open contracts and, therefore, could be terminated at anytime by either party.

The borrower collateralizes the loan with either cash or securities of 102% of market value plus accrued interest on domestic securities and 105% of market value plus accrued interest on international securities loaned. Cash open collateral is invested in a short-term investment pool, the Core Collateral Section, which had an average weighted maturity of 28 days as of December 31, 2004. Due to the nature of the program's collateralization of U.S. fixed income securities loans at 102% plus accrued interest, we believe that there is no credit risk per GASB 28 since the lender owes the borrower more than the borrower owes the lender. Cash collateral is invested for MERS in a dedicated short-term investment fund consisting of investment grade fixed income securities. The custodian provides for full indemnification to MERS for any losses that might occur in the event of borrower default resulting from negligence or intentional misconduct. Securities on loan are marked to market daily to ensure the adequacy of the collateral. There are no restrictions on the amount of securities that can be loaned at one time. Neither MERS nor the custodian has the ability to pledge or sell collateral securities delivered unless the borrower is in default.

MERS also invests in six commingled funds that participate in securities lending on a pooled basis.

MERS has never experienced a loss on securities lending transactions resulting from the default of a borrower or lending agent since it commenced lending securities in March 1995. The average number of days that MERS securities were borrowed was approximately 62 days as of December 31, 2004, producing a net income of \$1,341,339 in 2004.

**Collateral Held and Fair Value of Securities on Loan as of December 31, 2004**

Dollars In Thousands		
Fair Value of Securities on Loan	Nature of Collateral	Collateral Held
\$ 643,989,099	Cash	\$ 659,513,777
81,404,516	Non-Cash	84,343,256
<u>\$ 725,393,615</u>		<u>\$ 743,857,033</u>

**Derivatives and Structured Financial Instruments**

In accordance with investment policy, the active international manager may, when deemed prudent, enter into forward foreign currency exchange contracts in the international portfolio to match settlement deadlines or to take advantage of favorable currency moves in the market. Forward contracts are used to hedge against changes in the exchange rates related to foreign equities, primarily denominated in European and Asian currencies. Forward currency contracts were used in the international large cap portfolio to hedge the United Kingdom sterling, the book cost as of December 31, 2004, was \$16,731,001, and the fair market value was \$15,886,752. This is used to reduce the risk of currency exposure in the portfolio. As of December 31, 2004, there were no positions in forward currency contracts held in the portfolio.

Derivatives are neither used for speculation nor are they used to leverage the investment portfolio. The retirement system does not use swap agreements, stock options, caps/floors, or floating rate securities that are priced from underlying collateral. All derivatives are presented at fair value in the financial statements.

MERS uses futures contracts to equitize cash allocated to private equity markets that is awaiting investment. A futures contract is an agreement to buy or sell a specific amount of a commodity, currency, or financial instrument at a specified future date. Futures are exchange traded and the exchange assumes the risk of nonperformance by a counterparty. MERS is required to pledge to the broker cash or U.S. government securities (the initial margin) equal to a certain percentage of the contract amount. The fair value of cash collateral was \$3,490,155 as of December 31, 2004. Subsequent payments, known as "variation margin," are made or received by MERS each day, depending on the daily fluctuations in the value of the underlying security. Such variation margin is recorded as realized gain or loss in the financial statements. The fair value of the futures contract was \$45,513,750 as of December 31, 2004.

**Categories of Investment Risk**

The following table represents the total investments held as of December 31, 2004, categorized to give an indication of the level of risk assumed by MERS. All investments are governed primarily by an investment doctrine known as the prudent person rule. The prudent person rule establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the funds. The Governmental Accounting Standards Board Statement Number 3 requires disclosure of investment securities within the following three categories of custodial risk. The category descriptions follow:

Category 1	Insured or registered securities held by MERS or its agent in MERS name.
Category 2	Uninsured and unregistered securities collateralized with securities held by the counterparty's trust department or agent in MERS name.
Category 3	Uninsured and unregistered securities with securities held by the counter party, its trust department, or agent, but not in MERS name.

## Financial Section

A security, for purposes of classification in the listed categories, is a transferable financial instrument that evidences ownership or creditorship. Securities do not include investments made with another party, real or direct investments in mortgages and other loans. Investments in mutual funds, annuity contracts, and guaranteed investment contracts are also not considered securities for purposes of custodial credit risk classification. Such investments are shown as not subject to classification.

There are no Category 2 investments. The Real Estate section consists of real estate equity holdings (REITs) and real estate. The Defined Contribution Plan assets are participant-directed mutual funds, which are not subject to GASB Statement No. 3 credit risk classification. The Short-Term Investment Funds that are Category 3 investments are in foreign currencies. The Domestic Equities, Fixed Income, International Equities that are not subject to classification below are investments that are unregistered, pending trades, mutual index funds, guaranteed investment contracts, and direct investments in mortgages and other loans.

### Credit Risk of Investments as of December 31, 2004

(Expressed in Thousands)	Category			Securities not subject to Classification	Fair Values
	1	2	3		
Domestic Fixed Income	\$ 926,540		\$ 3,490	\$ 279,122	\$ 1,209,152
International Fixed Income				222,399	222,399
Domestic Equities	1,525,058			503,122	2,028,180
Hedged Fund				38,336	38,336
International Equities	349,014			313,133	662,147
Private Equity				67,925	67,925
Real Estate	69,228			191,856	261,084
Commercial Paper	172,942				172,942
Short Term Investments	540		2,102	(1,486)	1,156
Defined Contribution Plan				121,084	121,084
Securities Lending Collateral				659,514	659,514
	<b>\$ 3,043,322</b>	<b>\$ -</b>	<b>\$ 5,592</b>	<b>\$ 2,395,005</b>	<b>\$ 5,443,919</b>

#### Reconciliation to Investments on Statement of Plan Net Assets

Totals above	\$ 5,443,919
Less Commercial Paper	(172,942)
Less Short Term Investments	(1,156)
Less Sec Lending Cash Collateral	(659,514)
	<b>\$ 4,610,307</b>

## **5. Commitments and Contingencies**

In the normal course of business, benefit claims by members or employers are in various stages of determination through established administrative procedures with Retirement Board and judicial review thereafter. MERS does not anticipate any material loss as a result of these claims. Furthermore, the cost of successful benefit claims is ultimately the responsibility of the affected municipality and becomes its funding obligation. MERS maintains insurance for workers' compensation, owned and leased vehicles, blanket property, fiduciary, fidelity, and faithful performance to cover other risk of loss such as personal injury to employees or others, property damage, or other liability.

## **6. Defined Contribution Plan**

### **Plan Description**

MERS Defined Contribution Plan became operative July 8, 1997, under Section 401(a) of the Internal Revenue Code. MERS has contracted with International City Management Association-Retirement Corporation (ICMA-RC) to serve as the third-party administrator for the plan. The plan is available to all MERS participating municipalities and may be adopted on a division-by-division basis. Plan provisions and requirements are specified in the MERS Plan Document.

Contributions to the Defined Contribution Plan are remitted directly to ICMA-RC by the participating municipalities and are separate from contributions made to the MERS Defined Benefit Plan. Both employer contributions and employee voluntary contributions are governed by the percentages allowable under the Internal Revenue Code. Employees electing to be in the Defined Contribution Plan may not change their contribution as a percent of payroll after enrollment. Participating municipalities may offer current Defined Benefit Plan employees an opportunity to opt into the Defined Contribution Plan. MERS then transfers the actuarial present value of the employee's accrued benefit in the Defined Benefit Plan into the employee's account in the Defined Contribution Plan (at a stipulated funded ratio that shall not exceed 100%). Employees direct their contributions to various investment options offered by ICMA-RC and may transfer their account balances between investment categories or make changes to the percentage allocation on a daily basis. As of December 31, 2004, there were 92 plans that had adopted the Defined Contribution Plan with 5,754 member accounts totaling \$144.1 million.

ICMA-RC offers a variety of investment opportunities for the Defined Contribution Plan. The Vantage Trust Funds include nine actively managed funds; five index funds; and five model portfolio funds. The Mutual Fund Series includes 14 segregated accounts, each with a different investment strategy.

### **Significant Accounting Policies**

The Defined Contribution Plan financial statements are prepared using a cash basis of accounting (which approximates the accrual basis of accounting). Plan investments are presented at fair value. Plan participants select from over 30 investment options.

### **Reserve for Defined Contribution Plan**

All additions to and deductions from the Defined Contribution Plan are recorded in this reserve. ICMA-RC maintains the individual employee account records.

**7. Health Care Savings Program**

**Plan Description**

MERS Health Care Savings Program became operational in 2004 with a Private Letter Ruling from the Internal Revenue Service. It is a post employment defined contribution program designed to let employers and employees invest contributions in MERS total portfolio to be used to reimburse the members for future medical expenses/health insurance premiums after they have terminated employment. There can be four types of contributions: 1. Employer paid (tax free); 2. Mandatory employee salary reduction (tax free), 3. Mandatory leave conversion (tax free), and 4. Employee paid (post tax). As a result of a Private Letter ruling from the IRS, post employment benefits are tax-exempt. The plan is available to all MERS-participating municipalities and may be adopted on a division-by-division basis. Plan provisions and requirements are specified in the MERS Plan Document. Contribution rates are determined by collective bargaining agreements and employer personnel policies.

**Significant Accounting Policies**

The Health Care Savings Program financial statements are prepared using a cash basis of accounting for contributions and benefit payments (which approximates the accrual basis of accounting). Plan investments are presented at fair value. Plan members invest in the MERS total portfolio.

**Reserve for Health Care Savings Program**

All additions to and deductions from the Health Care Savings Program are recorded in this reserve. MERS maintains the individual employee account records.

**8. Retiree Health Funding Vehicle**

**Plan Description**

MERS Retiree Health Funding Vehicle is a program whereby participating municipalities can invest monies in a governmental trust that was established under Section 115 of the Internal Revenue Code. These funds constitute a health care fund, which enable municipalities to accumulate funds to provide for the funding of health benefits for retirees and beneficiaries. Plan provisions and requirements are specified in the MERS Plan Document.

**Significant Accounting Policies**

The Retiree Health Funding Vehicle Program financial statements are prepared using a cash basis of accounting for contributions and benefit payments (which approximates the accrual basis of accounting). Plan investments are presented at fair value. Plan members invest in the MERS total portfolio. Contributions are pooled subject to the Public Employee Retirement System Investment Act ("PERSIA"), 1965 PA 314.

**Reserve for Retiree Health Funding Vehicle**

All additions to and deductions from the Retiree Health Funding Vehicle Program are recorded in this reserve. MERS maintains the municipality employer account records.

**9. Interfund Receivables and Payables**

As of December 31, 2004, interfund receivables and payables were:

**Interfund Receivables and Payables**

---

	<b>Interfund Receivables</b>	<b>Interfund Payables</b>
Defined Benefit Plan	\$ 198,458	\$ 237,969
Defined Contribution Plan	-	-
Health Care Savings Program	129,272	195,888
Retiree Health Funding Vehicle	108,697	2,570
Totals	<u>\$ 436,427</u>	<u>\$ 436,427</u>

# Required Supplementary Information

## Schedule of Funding Progress

(Dollars in Millions)

Actuarial Valuation December 31	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Over) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
1998	\$ 3,030.4	\$ 3,592.0	\$ 561.6	84.40%	\$ 1,163.1	48.30%
1999	3,464.9	3,835.5	370.6	90.30	1,179.3	31.40
2000	3,787.2	4,397.0	609.8	86.10	1,226.0	49.70
2001	4,034.4	4,783.9	749.5	84.30	1,271.6	58.90
2002	4,133.0	5,181.2	1,048.2	79.80	1,327.4	79.00
2003	4,459.5	5,667.7	1,208.2	78.70	1,381.2	87.50

## Schedule of Employer Contributions

(Dollars in Millions)

Fiscal Year (See Note 1)	Annual Required Contribution	Accelerated Funding Credit	Percentage Contributed Before Credit	Percentage Contributed After Credit
1998	116.9	14.3	99%	113%
1999	119.6	6.8	111	118
2000	124.9	8.4	106	113
2001	118.2	14.5	103	118
2002	124.7	7.7	102	109
2003	133.2	4.5	121	125
2004	155.7	2.3	108	109

See notes to the Schedules of Required Supplementary Information.

## Required Supplementary Information

### NOTES TO THE SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

1. **Actuarial Valuation** - Actuarial valuations are prepared annually, as of December 31, for each participating municipality. To facilitate budgetary planning needs, employer contribution requirements are provided for each municipality's unique fiscal year that commences after the following calendar year end. For example, the contribution requirements for fiscal years that began in 2004 were determined by actuarial valuations, as of December 31, 2002.

Approximately 75% of the participating municipalities have fiscal years that begin January 1 or July 1.

The "Annual Required Contribution" and "Accelerated Funding Credit" shown in the preceding schedule represent the summation of each participating municipality's contribution requirements for its fiscal year commencing in the year stated. However, the calculations to determine the Percentage Contributed use contributions recorded during MERS fiscal year.

2. **Accelerated Funding Credits** - An Accelerated Funding Credits (AFC) Program was first established by the Retirement Board in 1984, and has since been modified several times. The current modified AFC program in effect reduces 2004 required contribution rates of municipalities with funded percentages in excess of 100%.
3. **Summary of Actuarial Methods and Assumptions** - The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation may be found in the Actuarial Section.

Summary Information follows:

*Valuation Date*

December 31, 2003

*Actuarial Cost Method*

Entry Age Normal

*Amortization Method*

Level Percent of Payroll, Open

*Remaining Amortization Period*

30 years (For new municipalities that first joined MERS prior to 2000, the amortization period was greater than 30 years and will decline one year annually until the period reaches 30 years.)

*Asset Valuation Method*

5-Year Smoothed Market (For 2003, the Retirement Board adopted a one time ad hoc adjustment to aggregate the yet unrecognized market gains and losses from 1999-2002 with the 2003 market gain. No gain or loss has been recognized for 2003. The aggregate loss amount of \$388,778,035 will be recognized in four equal dollar installments in 2004-2007.)

*Actuarial Assumptions*

Investment Rate of Return

8%

Projected Salary Increases

4.5% for base inflation, plus 0.0% to 4.16% percent per year attributable to merit and longevity.

Post-Retirement Benefit Adjustment

2.5% annual post-retirement benefit adjustments if adopted by individual municipality.

*Financial Section*

**Schedule of Administrative Expenses for the Year Ended December 31, 2004**

**Administrative Expenses**

**Personnel Services**

Salaries	\$ 2,716,711
Social Security	213,858
Retirement	296,881
Insurance	515,367
<b>Total Personnel Services</b>	<b>3,742,817</b>

**Professional Services**

Actuarial Services	583,484
Audit Services	54,950
Commercial Banking	98,355
Legal Services	117,510
Medical Advisory Services	49,230
Data Processing	15,443
Computer Maintenance	9,709
Consultants	134,965
Temporary Personnel	25,287
Recruitment Fees	32,074
<b>Total Professional Services</b>	<b>1,121,007</b>

**Communications**

Copying	115,994
Record Retention	89,849
Mail & Postage	80,798
Promotional Supplies	9,537
Telephone / Communications	113,229
Travel and Meetings	133,685
Annual Meeting	214,266
<b>Total Communications</b>	<b>757,358</b>

**Rentals**

Equipment Rental	142,726
Office Rental	604,500
<b>Total Rentals</b>	<b>747,226</b>

**Miscellaneous**

Payroll Processing	4,259
Office Supplies	75,019
Operating Expenses	310,957
Equipment Expense	96,907
Software	39,546
Software Maintenance	581,173
Professional Development and Tuition	286,924
Insurance	201,036
Maintenance	230,756
Depreciation	1,762,072
<b>Total Miscellaneous</b>	<b>3,588,649</b>

**Total Administrative Expenses**

**\$ 9,957,057**

*Financial Section*

**Schedule of Investment Expenses for the Year Ended December 31, 2004**

**Investment Expenses**

**Personnel Services**

Salaries	\$ 380,094
Social Security	28,140
Retirement	39,303
Insurance	65,735

**Total Personnel Services** 513,272

**Professional Services**

Commercial Banking	255,475
Investment Managers	10,919,534
Investment Performance Expense	79,500
Other Consultants	38,500

**Total Professional Services** 11,293,009

**Communication**

Travel and Meetings	32,413
Training and Subscriptions	73,972

**Total Communication** 106,385

**Miscellaneous**

Operating Expenses	12,402
Equipment Expense	1,194
Software Maintenance	111,214
Depreciation	24,173

**Total Miscellaneous** 148,983

**Total Investment Expenses** \$ 12,061,649

*Financial Section*

**Schedule of Payments to Consultants for the Year Ended December 31, 2004**

<b>FIRM</b>	<b>NATURE OF SERVICE</b>	<b>FEE</b>
Gabriel, Roeder, Smith and Co.	Actuary and System Implementation	\$ 2,749,911
PeopleSoft	Systems Implementation and Maintenance	439,313
Andrews, Hooper & Pavlik P.L.C.	Auditor	50,025
Associated Physicians	Medical Advisors	34,625
Karoub Associates	Legislative Advisors	30,000
New London Management Associates	Personnel and Human Resource Advisors	27,365
Miller, Canfield, Paddock and Stone, PLC	Legal Counsel	22,434
Consulting Physicians	Medical Advisors	21,505
Deborah Allen	System Implementation	20,000
<b>Total Payments to Consultants</b>		<b>\$ 3,395,178</b>

Note: Fees paid to investment managers are included in the Investment Section.

## *Report on Investment Activity*

BY JEB BURNS, CHIEF INVESTMENT OFFICER

### INTRODUCTION

The MERS Retirement Board has the fiduciary responsibility and authority to direct the Retirement System's investment program. Members of the Board must follow the state law and prudent standards of diligence consistent with "discharging their duties in the interest of plan participants." The prudent person standard requires that the Board "exercise the same judgment, care, skill, prudence, and diligence under the circumstances which persons acting in a like capacity and familiar with such matters would use in the conduct of a similar enterprise with similar aims." MERS has a Defined Benefit Plan and a Defined Contribution Plan. The first portion of the Investment Section is devoted to the Defined Benefit Plan and the second portion to the Defined Contribution Plan.

#### **A. *Defined Benefit Plan.***

##### **Investment Objectives and Activity**

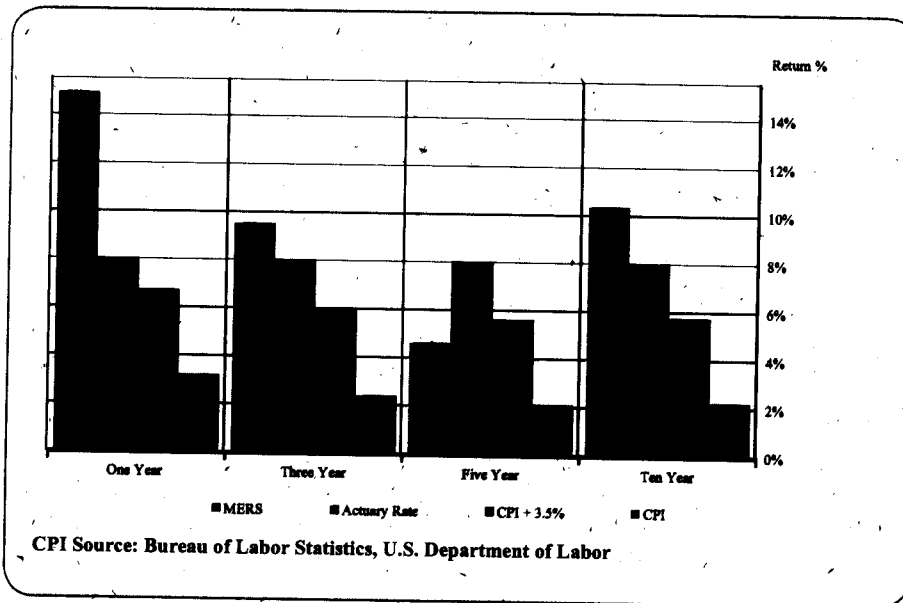
The primary investment objective is to maximize the long-term total rate of return on investments with a high degree of prudence and sufficient diversification to eliminate inordinate risks in conformity with the Michigan Public Employee Retirement System's Investment Act, 1965 PA 314, as amended. In addition, the Retirement Board has established Investment Guidelines that are updated annually. These guidelines communicate long-term objectives, goals and performance expectations to the staff, investment managers, consultants, and all other interested parties. The Retirement Board strives to add incremental returns relative to the market by employing active management strategies where appropriate. Every effort is made to minimize the costs to the portfolio with the use of skilled internal and external resources without negatively affecting the performance of the portfolio.

The long-term objectives for the investment assets are:

- Achieve a real rate of return of at least 3.5% annually over the rate of inflation
- Exceed the actuarial assumption rate of 8% annually

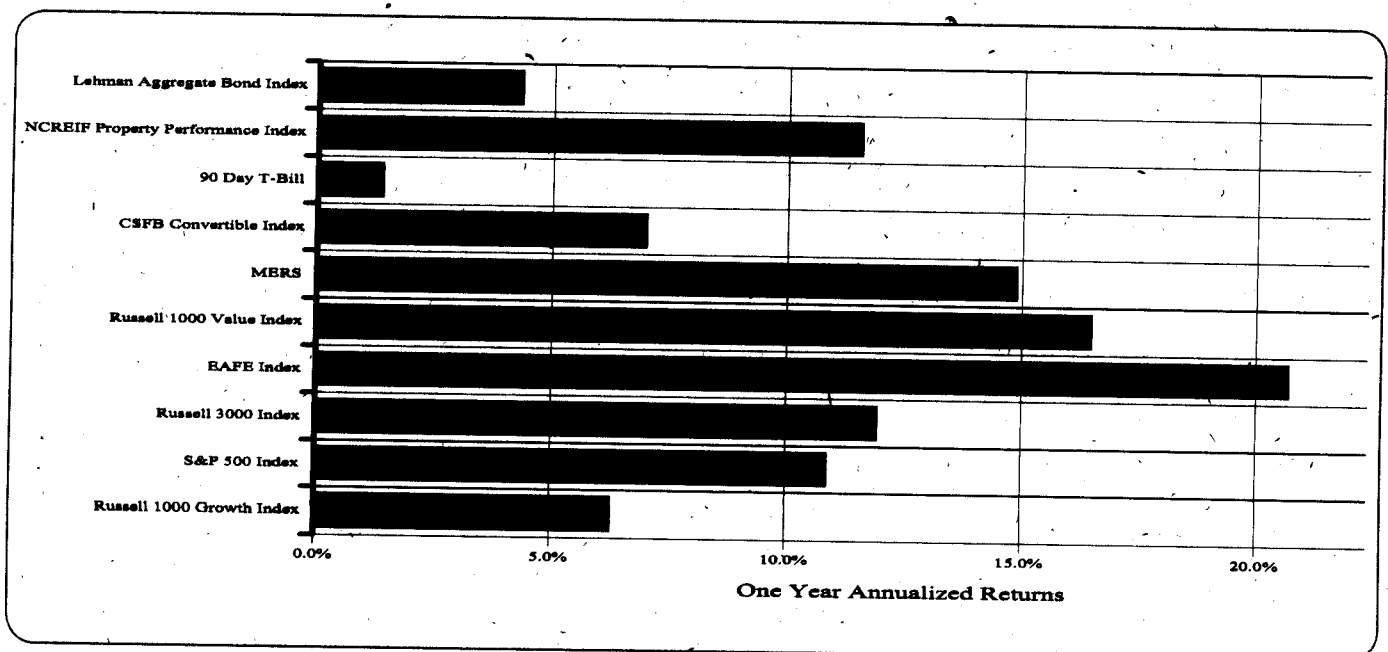
The real rate of return is defined as the rate at which the long-term total return on the Retirement System's assets exceeds the long-term inflation rate. The graph on the following page illustrates that MERS has achieved returns greater than the Consumer Price Index (CPI) plus 3.5% and the actuarial assumption rate of 8% over 10 years.

## MERS of Michigan Actual Returns versus Goals



The portfolio is constructed to reduce volatility in down markets, yet still participate significantly when the equity markets rebound. The chart below comparing MERS to the major market indices demonstrates the value of diversification and MERS ability to quickly rebound in up market conditions.

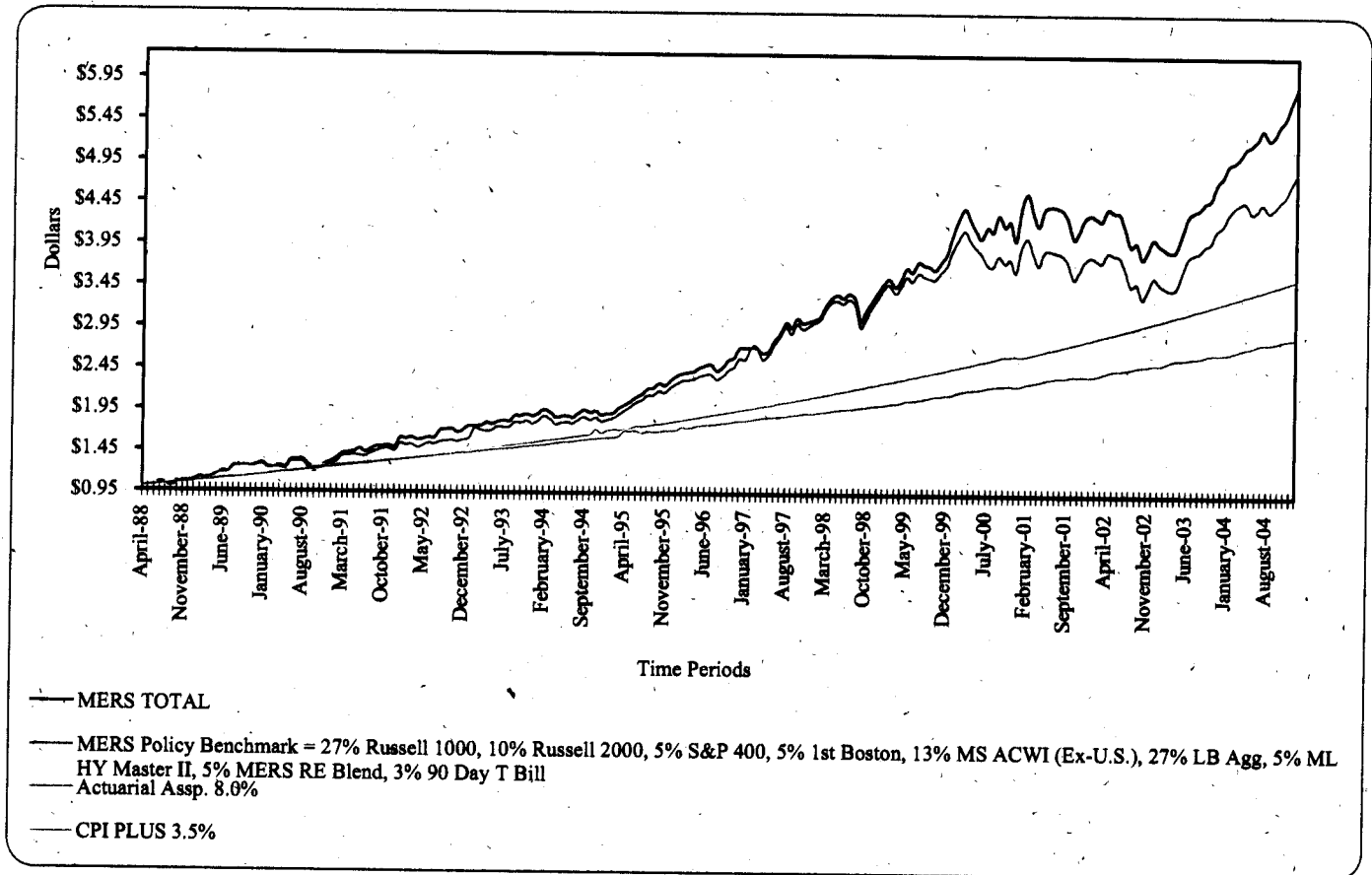
## MERS Compared to Market Indices for 2004



## Investment Section

The portfolio has enjoyed its second consecutive positive year of performance. MERS defined benefit portfolio had a one-year return of 14.9%, allowing MERS to exceed its actuarial assumption rate of return for the ten-year, three-year, and one-year periods. The combination of passive and active management, diversification across asset classes, and its disciplined adherence to its asset allocation plan has allowed MERS to provide value through multiple market cycles. The chart below illustrates the growth of a dollar over the last 14 years. It compares the fund to its various benchmarks and demonstrates the value added from active portfolio management.

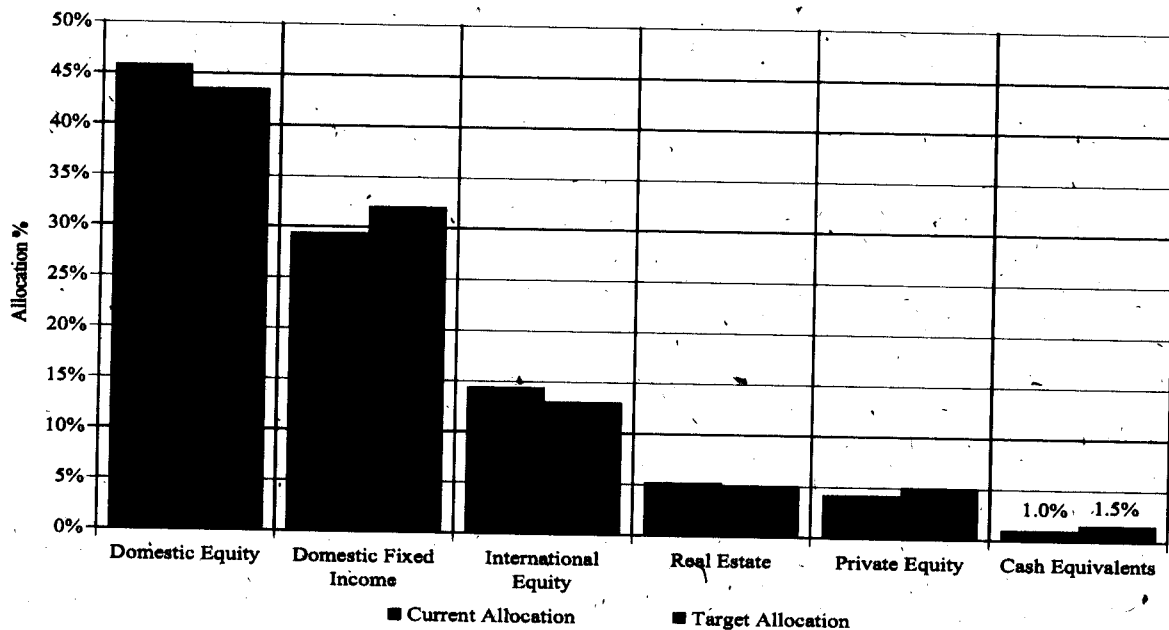
### Growth of a Dollar Period Ending December 31, 2004



### Asset Allocation

With long-term investment objectives as the central focus, the Retirement Board conducts a periodic asset allocation study to select a strategic asset allocation plan. A study was completed in 2001, resulting in two new asset classes (private equity and high yield bonds). The allocation plan designs a portfolio with the optimal mix of asset classes for the long-term investment time horizon. The characteristics of expected return, risk, and correlation of return for various asset categories are carefully projected. The result is a portfolio that is broadly diversified in domestic and international stocks, domestic fixed income securities, high yield bonds, real estate, private equity, and cash equivalents. Both active and passive strategies are employed. Due to market movements, the different asset classes fluctuate in performance. Thus, it is reasonable to expect the actual allocation to differ from that of the target as is demonstrated in the preceding bar chart.

### Current Asset Allocation versus Target Allocation



### Total Fund Investment Results

The investment portfolio produced a total gross return for the fiscal year of 14.9%. Domestic and International equities contributed significantly to the portfolio's outstanding performance in 2004. MERS exposure to small caps stocks both provided significant positive outperformance, returning 26.6% for the year. International small cap also produced strong returns of 40.4%. Fixed income markets also produced strong returns of 7.5%. MERS addition of a global bond mandate produced positive returns of 10.7% in the fourth quarter. High yield bonds continued to add value, yielding 8.8%. Real estate and cash positions also added positive returns to the overall portfolio. All major equity indices finished in positive territory. The technology heavy NASDAQ Index returned 9.1% for the year. The Dow Jones Industrial Average and the Russell 3000 Index returned 5.3% and 11.9%, respectively, in 2004.

## Investment Section

The MERS portfolio ranked in the top decile within the Northern Trust (TNT) Public Fund Universe, returning 14.9% for the fiscal year and ranked in the 4th percentile. MERS was ranked 15th and 13th for the two and three-year periods, respectively. The TNT universe is comprised of 34 public plans with a total market value of \$198 billion.

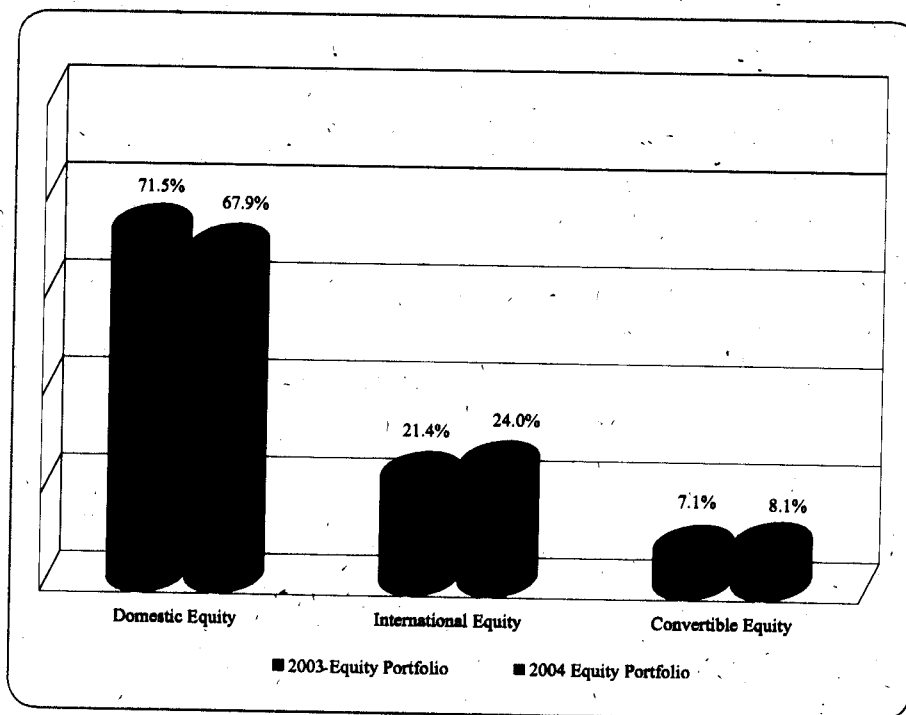
The plans ranged in size from \$54 million to \$33.7 billion with a median market value of \$3.1 billion and an average market value of \$5.8 billion. The portfolio returned 9.5% and 4.6% for the three and five-year periods, respectively, versus its policy benchmark at 8.2% and 4.3%. The policy portfolio benchmark reflects the return that would have been achieved had MERS invested exclusively in passively managed index funds. *It should be noted that convertible bonds, high yield bonds, and private equity do not have investable indices and their use in the policy benchmark is for comparative purposes only and do not reflect a real investment alternative to active management.* MERS continues to achieve returns that outpace both inflation and the funds actuarial rate of 8%. The returns of the portfolio are calculated using a time-weighted rate of return in accordance with the standards of the Association for Investment Management and Research (AIMR). The following table shows the annualized returns gross of fees for fiscal year ended December 31, 2004.

### Schedule of Investment Results Gross of Fees

	One Year Annualized	Three Year Annualized	Five Year Annualized
MERS Total Fund	14.9%	9.5%	4.6%
Policy Portfolio	11.5%	8.2%	4.3%
* Median Public Plan	12.4%	8.6%	4.3%
Domestic Stocks	18.6%	10.5%	3.9%
Russell 3000 Index	12.0%	4.8%	-1.2%
Convertibles	9.5%	5.4%	0.9%
CSFB Convertible Index	7.0%	8.1%	1.7%
International Stocks	25.9%	12.3%	-3.3%
MSCI Eafe Free Index	20.7%	12.3%	-80.0%
Domestic Fixed Income	7.5%	7.6%	-8.6%
Lehman Aggregate Bond Index	4.3%	6.2%	7.7%
High Yield Bond	8.8%	9.4%	N/A
Merrill Lynch High Yield Master II	10.9%	11.7%	N/A
Real Estate	17.1%	12.3%	12.9%
NCREIF Property Performance	11.6%	7.4%	8.9%

\* The Median Public Plan returns are shown Gross of Fees

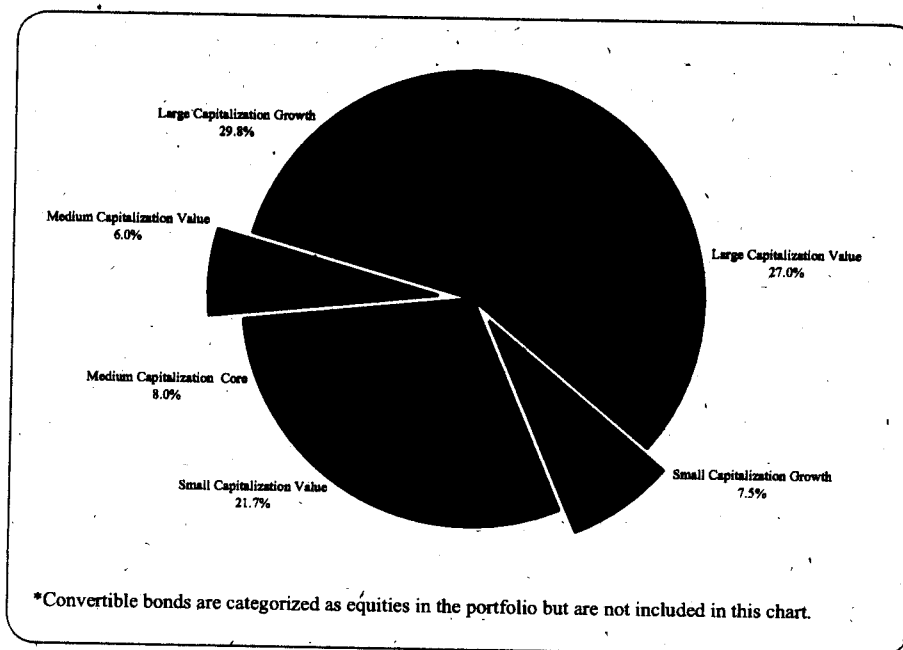
## Total Equity Portfolio Comparison 2003 versus 2004



**Total Equities** – The total equity portfolio includes U.S. common stocks, international stocks, and convertible securities, representing 60.3% of the total portfolio as of December 31, 2004. The year-end composition of the equity portfolio is shown and is compared to the 2003 equity allocation.

**Domestic Equities** – As of December 31, 2004, the U.S. stock portfolio had a market value of \$1.877 billion and represented just over 40.9% of the total portfolio (Convertible bonds, which are treated as equities will be discussed separately). The Retirement Board employs U.S. stocks in the portfolio primarily because their historical returns over inflation help to preserve and enhance the fund's ability to achieve the long-term real rate of return objective.

## Total Domestic Equity Portfolio 2004



The returns for this asset class returned to positive territory in 2004 as the economy grew at a higher than expected rate, with a real GDP increase for the U.S. economy of 4.4%. During this period, the domestic common stock portfolio returned 18.6% versus the Russell 3000 Index with a return of 12.0%. The large cap growth portfolio had returns of 13.8% compared to the Russell 1000 Growth Index of 6.3%. MERS small cap portfolio returned 26.6% versus the Russell 2000 Index at 18.3%. Value style managers generally fared better than growth managers, but all sectors of the equity markets produced positive returns.

Passive management accounts for 9.6% of the U.S. equity portfolio and is expected to provide broad market diversification. These funds are designed to track the performance of the market at a low cost. MERS began managing an S&P 500 Index internally in 2003 and added S&P 400 in 2004. An outside manager currently provides the management of the Russell 1000 Enhanced Index. Enhanced or risk controlled indexes closely track the performance of the index, seeking to capture small amounts of alpha with a similar risk profile.

The U.S. equity asset class is diversified by capitalization using small, mid, and large companies and by style using value and growth. The stocks within the portfolio can be classified by style as follows: 29.8% large cap growth, 27.0% large cap value, 8.0% mid cap core, 6.0% mid cap value, 21.7% small cap value, and 7.5% small cap growth.

### **Top Ten Equity Holdings as of December 31, 2004**

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<b>Asset Description</b>	<b>Shares</b>	<b>Market Value</b>	<b>Percentage of Total Market Value</b>
<b>Countrywide Financial Corp</b>	<b>605,888</b>	<b>22,423,914.88</b>	<b>0.49%</b>
Electronic Arts Inc	326,010	20,108,296.80	0.44%
<b>Apollo Group Inc</b>	<b>247,540</b>	<b>19,978,953.40</b>	<b>0.43%</b>
Armor Holdings Inc	396,113	18,625,233.26	0.41%
<b>General Electric Co</b>	<b>509,600</b>	<b>18,600,400.00</b>	<b>0.40%</b>
Yahoo! Inc	485,810	18,305,320.80	0.40%
<b>eBay Inc</b>	<b>148,600</b>	<b>17,288,124.00</b>	<b>0.38%</b>
Dell Inc	408,300	17,205,762.00	0.37%
<b>Research In Motion Ltd</b>	<b>186,020</b>	<b>15,331,768.40</b>	<b>0.33%</b>
Microsoft Corp	517,710	13,833,211.20	0.30%

\*Convertible bonds are categorized as equities in the portfolio but are not included in this chart.

**International Equities** - The allocation to non-U.S. stocks comprises 13.0% of the total portfolio. Of this, 23.6% is passively managed in the Barclays EAFE Index Fund, with the remaining actively managed in three separate active strategies. Mondrian Investment Partners Limited large cap value, Acadian Asset Management's small cap, and BGI's Active International Equity large cap portfolios were added to the portfolio in 2003. This strategy is employed in recognition of today's global economy and provides further diversification for the total equity portfolio.

Historically, international equities have tended to outperform domestic equities during bull markets and underperform during bear market conditions. This year, the international portfolio outperformed most broad domestic market measures with the exception of small cap stocks. Although it should be noted that MERS allocation to international small cap equities produced the highest absolute returns for the portfolio with a return of 40.4% for the year.

The benchmark for the international equity portfolio is the MSCI ACWI Free ex-U.S. index for large cap mandates and the MSCI EAFE Small for small cap mandates, both computed by Morgan Stanley Capital International. The international portfolio returned 25.9% for the one-year period ending December 31, 2004; the portfolio returned 12.3% and -3.3% for three and five years, respectively.

**Convertibles** - The convertible portfolio is 4.9% of total portfolio assets and is part of the overall equity strategy. Convertible securities are used to lower the volatility of the equity portfolio while producing higher returns than available in fixed income securities. The convertible section of the portfolio is managed by Trust Company of the West (TCW) and returned 9.5% for the fiscal year versus the First Boston Convertible Bond Index of 7.0%. The three and five-year returns for the portfolio are 5.4% and .94%, respectively, versus the benchmark of 8.1% and 1.7% for the same periods. The portfolio performed well given its quality bias relative to the benchmark. The portfolio outpaced its additional hurdle (to achieve 80% of the return S&P 500), returning 87.4% of the S&P 500, which gained 10.9%.

**Domestic Fixed Income** - The U.S. fixed income markets provided additional diversification, but under performed relative to equities. Bonds are traditionally regarded as a hedge in a disinflationary or deflationary environment. They generally lag equities when the economy rebounds and low interest rates push yields lower. The fixed income portfolio is 29.4% of the total portfolio, including high yield bonds that are discussed below. It serves to diversify the equity risk component within the fund, providing asset protection during market downturns.

The domestic fixed income performance is measured against the Lehman Brothers Aggregate Bond Index and Lehman Brothers U.S. Universal. The long-term returns for this sector of the portfolio are 7.6% and 8.6% for the three and five-year periods, respectively. The portfolio is 65.8% actively managed and 34.2% passively managed. The passive portion is managed within an enhanced or risk controlled portfolio.

#### **Top Ten Fixed Income Holdings as of December 31, 2004**

<b>Asset Description</b>	<b>Par Value</b>	<b>Market Value</b>	<b>Percentage of Total Market Value</b>
US TSY 3.0% 11/15/2007	\$ 35,380,000	\$ 35,161,705	0.77%
US TSY 2.875% 11/30/06	32,870,000	32,767,446	0.71
US TSY 3% 02/15/08	15,065,000	14,942,070	0.33
US TSY 2.375% 11/15/09	10,320,000	10,271,599	0.22
US TSY 1.5% 07/31/05	10,000,000	9,938,700	0.22
US TSY Inflx .875% 04/15/10	9,964,273	9,867,320	0.21
US TSY 4.25% 11/15/14	9,065,000	9,088,750	0.20
FOAMEX L.P. 9.875% 06/15/07	10,785,000	8,843,700	0.19
CIT Group FRN 11/04/05	8,495,000	8,506,638	0.19
US TSY 5.375% 2/15/31	7,245,000	7,834,236	0.17

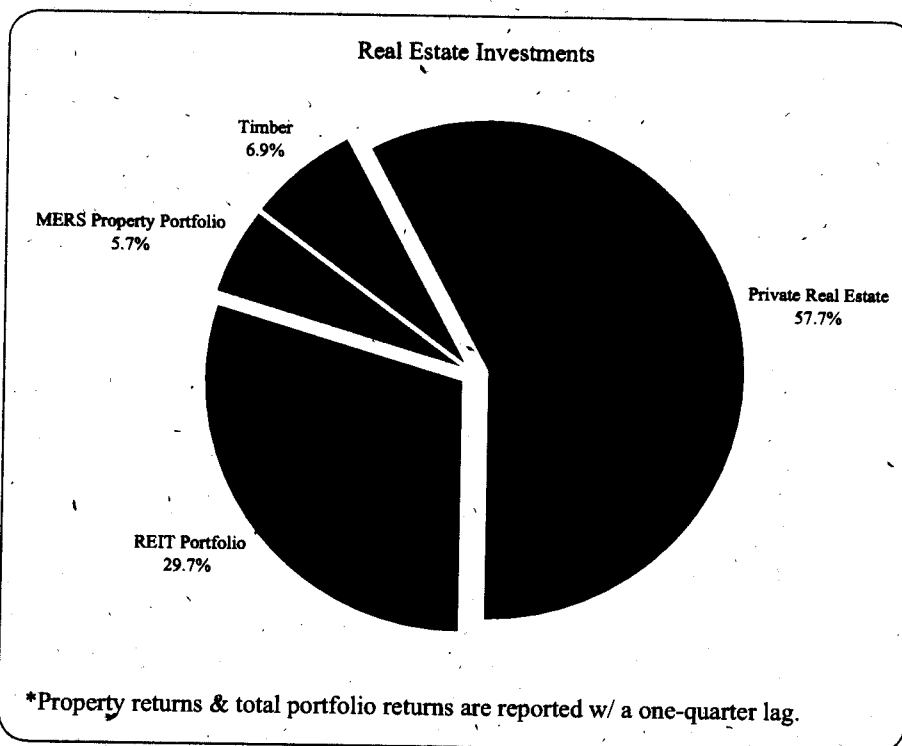
**High Yield Bonds** - The MERS Board adopted a new asset allocation structure in 2001 adding high yield bonds as a distinct asset class with a 5% allocation target within the portfolio. The portfolio seeks to invest in lower grade fixed income investments that provide higher returns than traditional core fixed income assets within the risk budget approved by the Board. The portfolio returned 8.8% versus its benchmark, the Merrill Lynch High Yield Master II Index, at 10.9%. High Yield Bonds contributed significantly to the performance of the overall portfolio.

### Real Estate Portfolio - MERS

real estate investments represented 5.2% of the total portfolio at year-end and produced a total return of 14.8% for the year.<sup>1</sup> The portfolio is well diversified by property type, geographic region, and risk category. The publicly traded assets, comprised of Real Estate Investment Trusts (REITS), are 29.7% of the real estate portion; 70.3% of these assets are in commingled-pooled funds, which include timber investments.

The 4th quarter return for the public securities portion of the portfolio was 17.1% versus the North American Real Estate Investment Trust (NAREIT) All Equity Index at 25.6%. The REIT markets participated in the equity rally, driving strong positive performance in the real estate portion of MERS portfolio. The private securities portion of the real estate allocation returned 12.7% versus the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index of 11.6%. Private real estate is split between stable and enhanced properties that returned 12.7% and 15.9%, respectively. The NCREIF Index represents approximately 4,000 properties, with an aggregate value in excess of \$145 billion and encompasses retail, industrial, office and apartment property types geographically diversified across all regions of the country. The real estate portfolio had returns of 12.3% and 12.9% for the three- and five-year periods, respectively.

### Real Estate Investments



**Private Equity** - The MERS Board adopted a new asset allocation structure in 2001, adding private equity as a distinct asset class with a 5% allocation target within the portfolio. This asset class invests predominately in private markets via such vehicles as venture capital, leveraged buyouts, distressed debt, and other special situation investment opportunities. The objective is to achieve higher total returns for the fund utilizing a diversified portfolio within the risk budget established by the MERS Board. In 2001, the fund committed \$50 million to two funds, Mesirow II and Mesirow VII. In 2002, MERS hired Credit Suisse First Boston's (CSFB) Customized Fund Investment Group to invest the remaining capital and to serve as the consultant over all future private equity investments. They will be making investments domestically and in Europe over the next three years. Capital calls of \$27.1 million were made thus far; the remaining funding will be called in the next two years enabling MERS plans to become fully invested in the asset class. Additional commitments will be made on an ongoing basis to ensure that the fund is fully invested at the target level established by the board. In 2004, a co-investment fund was added to the program. This will allow MERS to take larger positions in individual companies in the pursuit of higher returns. Cash awaiting deployment is invested in short-term cash instruments, S&P 500 futures contracts, and a global macro total return fund.

**Short-Term Cash Portfolio** - Cash equivalents are employed by the fund to meet the liquidity needs of funding pension benefit payments. These investments allow the external managers a vehicle for the investment of funds during brief periods of time between the sale of an existing security and the purchase of a replacement. The dedicated cash portfolio has an allocation of 1.5%. In addition, all residual cash from MERS actively managed portfolios are managed through this account. The portfolio is managed internally using various fixed income securities with investment guidelines designed for the preservation of principal, liquidity, and the highest credit quality.

A complete list of the holdings for all asset categories can be made available to the public upon request.

**Directed Brokerage/Commission Recapture Program**

MERS utilizes commission recapture brokers to reduce expenses to the overall fund. Securities Exchange Commission (SEC) investment advisor guidelines stipulate that commissions are classified as assets of the fund and a portion of those costs may be returned to the fund to offset expenses. In the fiscal year ended December 31, 2004, MERS earned \$478,380 in commission rebates.

**Derivatives**

In accordance with the Investment Guidelines, MERS allows the active international manager to enter into forward foreign currency exchange contracts in the international portfolio to match settlement deadlines. Forward contracts are used to hedge against changes in exchange rates related to foreign equities, primarily denominated in European and Asian currencies. This is used to reduce the risk of currency exposure in the portfolio. As of December 31, 2004, Mondrian Investment Partners Limited was utilizing forward currency contracts held in the international large cap value portfolio to hedge the U.K. sterling. This action was taken to protect the underlying assets from currency risk. Additionally, MERS began utilizing futures contracts to equitize residual cash in its portfolio. MERS purchased 150 long S&P 500 futures contracts, expiring March 2005. These contracts were backed by agency issues held in a segregated account with MERS futures broker. Derivatives are not used for speculation or used to leverage the investment portfolio.

The Retirement System does not use swap agreements, stock options, caps/floors or floating rate securities that are priced from underlying collateral.

*Investment Section*

**Schedule of Investment Fees Year Ended December 31, 2004**

<b>Investment Managers</b>	<b>Average Assets Under Management</b>	<b>Annual Fee</b>	<b>Average Basis Points</b>
Acadian Asset Management	\$ 122,946,083	\$ 641,784	52.2
Ariel Capital Management	88,091,734	388,453	44.1
Armstrong Shaw Associates, Inc.	221,230,034	266,955	12.07
Barclays Global Investors	1,081,516,763	1,639,289	15.16
CSFB Private Equity Fund	NA	1,739,364	NA
Evergreen Investments	229,596,952	136,919	5.96
J.P. Morgan Strategic Property Fund	37,210,293	373,989	100.51
Kennedy Capital Management	400,232,996	1,015,233	25.37
Lend Lease Rosen	72,231,218	110,357	15.28
Mesirow Partnership Fund	NA	527,500	NA
Mondrian International	157,560,763	438,453	27.83
Money Management Group	NA	1,362,924	NA
Reams Asset Management	491,404,106	922,224	18.77
Trust Company of the West	201,632,572	703,265	34.88
Urdang Investment Management	51,256,549	301,026	58.73
Wasatch Advisors	118,815,922	928,619	78.16
Wellington Management	483,655,184	1,224,918	25.33
Western Asset Management	265,190,689	505,230	19.05
World Asset Management	147,862,732	20,850	1.41
The Townsend Group	NA	335,357	NA
<b>Total Investment Manager Fees *</b>	<b>\$ 4,170,434,589</b>	<b>\$ 13,582,711</b>	<b>33.43</b>

**Investment Custodian**

The Northern Trust Company	263,532
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**Investment Performance Measurement Consultant**

The Northern Trust Company **	79,500
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**Securities Lending Agent**

The Northern Trust Company	446,856
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**Total Investment Fees**

**\$ 14,372,599**

\* Investment manager fee for investments in Real Estate Private Securities are netted against the reported partnership or trust fund income.

\*\* Includes the addition of the Alerts product provided by TNT to measure guideline compliance.

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*Investment Section*

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**Schedule of Investment Commissions**

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<b>Brokerage Firm</b>	<b>Shares Traded</b>	<b>Total Dollars</b>	<b>Commission/Share</b>
REDI	35,346,662	\$ 431,984	\$ 0.01
Fano Securities	9,685,213	311,917	0.03
Smith, Moore & Co	9,320,662	300,583	0.03
Arcadia Securities	276,800	276,800	1.00
Rockhouse Securities	5,840,513	237,532	0.04
Capital Institutional Services	4,892,183	215,115	0.04
Barrett	6,127,685	208,562	0.03
Investment Technology	7,451,015	183,448	0.02
Cantor Fitzgerald	5,152,213	173,293	0.03
Merrill Lynch	4,883,539	158,369	0.03
William Smith	4,249,895	151,462	0.04
Wells Fargo	2,972,469	97,140	0.03
Morgan Stanley	2,881,320	89,800	0.03
Goldman Sachs	4,062,682	88,515	0.02
Moness, Crespi, Hardt & Co., Inc	1,825,750	80,203	0.04
Bank of New York	1,555,236	65,628	0.04
UBS	2,377,207	64,485	0.03
Northern Trust	1,285,773	62,302	0.05
Frank Russell	1,264,720	60,636	0.05
Charles Schwab	1,548,134	58,628	0.04
Lehman Brothers	1,760,889	52,481	0.03
Thomas Weisel	1,151,790	50,852	0.04
Citigroup	981,495	45,409	0.05
Bank of America	2,141,892	44,185	0.02
Investor's Capital	1,256,901	40,228	0.03
Subtotal (25 Largest)	120,292,638	3,549,557	0.03
Other	55,476,027	1,308,178	0.02
<b>Total Commissions</b>	<b>175,768,665</b>	<b>\$ 4,857,735</b>	<b>\$ 0.03</b>

*Investment Section*

**Investment Summary for Defined Benefit Plan as of December 31, 2004**

Type of Investment		Market Value	Percent of Market Value
<b>Domestic Fixed Income</b>			
	US Government Bonds	\$ 155,839,940	3.40%
	Corporate Bonds	387,909,623	8.46%
	Bond Index Funds	385,556,293	8.41%
	Mortgages	68,651,930	1.50%
	US Agency Bonds	210,470,454	4.59%
<b>Sub Total Domestic Fixed Income</b>		<b>1,208,428,240</b>	<b>26.36%</b>
	Global Fixed Income	222,265,853	4.85%
<b>Total Fixed Income</b>		<b>1,430,694,093</b>	<b>31.21%</b>
<b>Equities</b>			
	Domestic Stock	1,112,972,013	24.28%
	Domestic Index Funds	755,478,667	16.48%
	Convertibles	158,514,436	3.46%
<b>Sub Total Domestic Equities</b>		<b>2,026,965,116</b>	<b>44.22%</b>
	International Stock	353,700,553	7.71%
	International Index Funds	308,050,251	6.72%
<b>Sub Total International Equities</b>		<b>661,750,804</b>	<b>14.43%</b>
<b>Total Equities</b>		<b>2,688,715,920</b>	<b>58.65%</b>
<b>Venture Capital &amp; Partnerships</b>			
	Hedge Funds	38,312,497	0.84%
	Private Equity	67,884,364	1.48%
<b>Total Venture Capital &amp; Partnerships</b>		<b>106,196,861</b>	<b>2.32%</b>
<b>Real Estate</b>			
	Private Securities	166,368,312	3.63%
	Public Securities Index Fund	94,559,844	2.06%
<b>Total Real Estate</b>		<b>260,928,156</b>	<b>5.69%</b>
<b>Sub Total Investments</b>		<b>4,486,535,030</b>	<b>97.87%</b>
<b>Cash Equivalents</b>			
	Commercial Paper	172,944,208	3.77%
	Short Term Investments/Cash	2,327,026	0.05%
<b>Total Cash Equivalents</b>		<b>175,271,234</b>	<b>3.82%</b>
<b>Sub Total Investments &amp; Cash</b>		<b>4,661,806,264</b>	<b>101.69%</b>
	Payables - Purchases of Investments	(159,923,488)	-3.49%
	Receivables - Sale of Investments & Interest	81,792,243	1.80%
<b>Total Investments</b>		<b>\$ 4,583,675,019</b>	<b>100.00%</b>

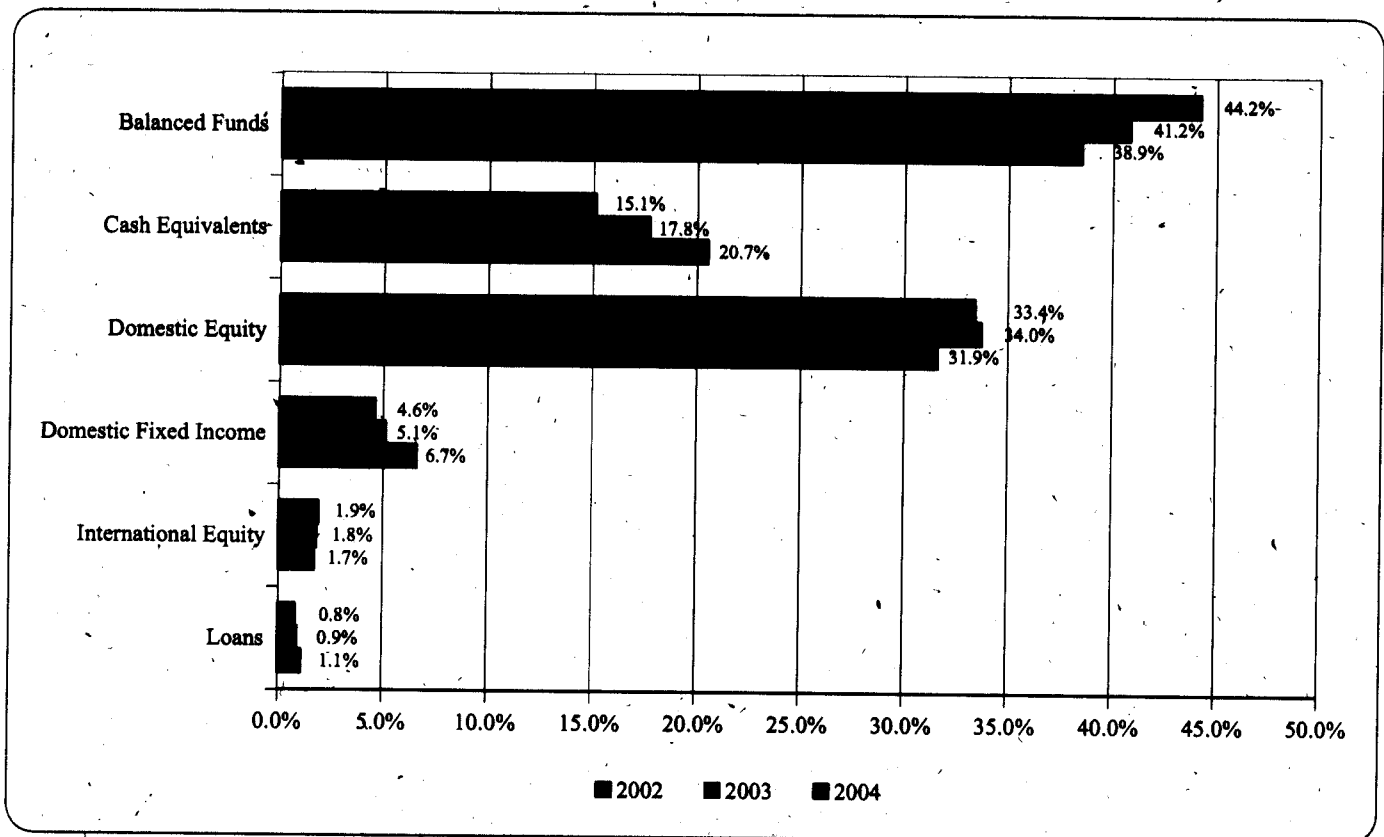
Note: Includes receivables and payables for sales and purchases of securities with settlement dates after December 31, 2004

**B. Defined Contribution Plan**

**Investment Activity**

The MERS Defined Contribution Plan became operative on July 8, 1997, under Section 401(a) of the Internal Revenue Code. This plan is available for adoption by all of MERS member municipalities. It is an alternative option to MERS Defined Benefit Plan. As of December 31, 2004, the Defined Contribution Plan had net assets of \$144.1 million and over 5,000 members. Each member is responsible for directing the investment of his or her accumulated account balance. Members receive investment performance information from MERS third-party administrator, International City/County Management Association - Retirement Corporation (ICMA-RC). The assets as of December 31, 2004, are allocated as follows:

**Asset Allocation of Defined Contribution Plan**



### **Investment Options**

ICMA-RC offers the following investment options:

**Total Return Funds** – The actively managed funds invest in both domestic and international equities, fixed income, balanced accounts, cash, and investment contracts. Included in this category are the Aggressive Opportunities Fund, International Fund, Growth Fund, Growth and Income Fund, Equity Income Fund, Asset Allocation Fund, U.S. Government Securities Fund, and Cash Management Fund. The index funds are comprised of the Overseas Equity Index Fund, Mid/Small Company Index Fund, Broad Market Index Fund, 500 Stock Index Fund, and Core Bond Index Fund.

**Plus Fund** – The Plus Fund consists primarily of portfolios of investment contracts purchased from financial institutions and accordingly, maintains a stable capital value in the absence of credit default.

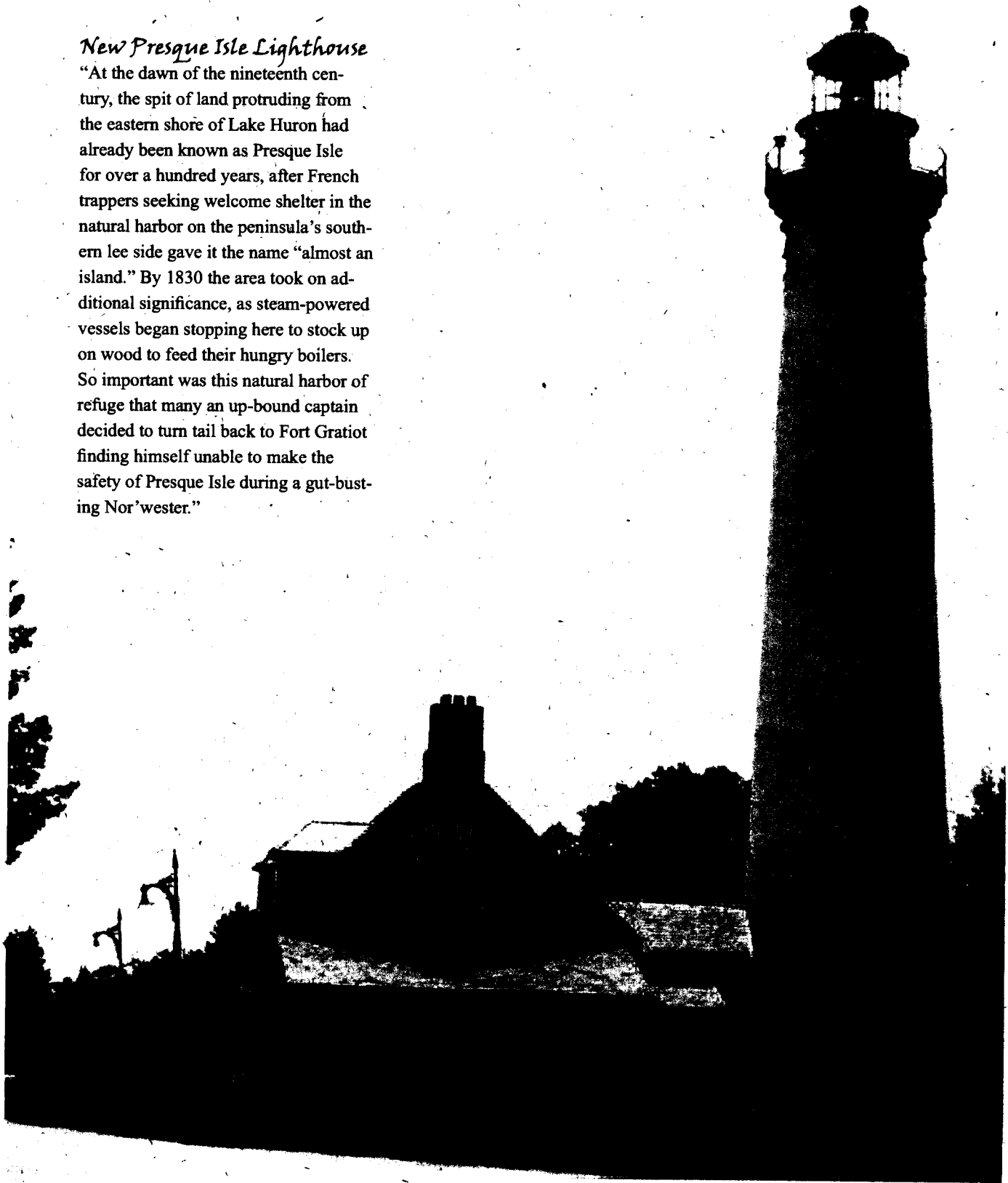
**Model Portfolio Funds** – These five funds invest in actively managed funds, index funds, and investment contracts in varying proportions. They allow the investor to choose one investment vehicle to provide the level of diversification that best meets their risk tolerance and investment objectives. In descending order of market risk, they are the All-Equity Growth Fund, Long-Term Growth Fund, Traditional Growth Fund, Conservative Growth Fund, and Savings Oriented Fund.

**Lifestyle Investing** – Allows investors the opportunity to select one fully diversified fund that is designed to meet their individual time horizons and risk tolerance. This strategy can be accomplished through either the allocation of individual stocks, bonds, and cash, or it can be done by combining existing mutual funds, creating a “fund of funds.” Once the asset mix is established it will automatically be rebalanced at a predetermined future date based upon your age.

**Mutual Fund Series** - This is a group of 14 segregated accounts. The portfolio of each segregated account consists of shares of a single designated mutual fund that are acquired, held, and redeemed by the Trust in response to investments and withdrawals from the account by participants. The series includes the following: PIMCO Total Return, PIMCO High Yield Fund, Fidelity Puritan Fund, Lord Abbott Large Company Value Fund, American Century Value Fund, Calvert Social Investment Fund Equity Portfolio, Fidelity Contrafund, Fidelity Magellan Fund, Gabelli Value Fund, MFS Large Company Growth Fund, American Century Ultra Fund, T. Rowe Price Small-Cap Value Fund, T. Rowe Price Small-Cap Stock Fund, and the INVESCO Small Company Growth Fund.

### *New Presque Isle Lighthouse*

"At the dawn of the nineteenth century, the spit of land protruding from the eastern shore of Lake Huron had already been known as Presque Isle for over a hundred years, after French trappers seeking welcome shelter in the natural harbor on the peninsula's southern lee side gave it the name "almost an island." By 1830 the area took on additional significance, as steam-powered vessels began stopping here to stock up on wood to feed their hungry boilers. So important was this natural harbor of refuge that many an up-bound captain decided to turn tail back to Fort Gratiot finding himself unable to make the safety of Presque Isle during a gut-busting Nor'wester."



Pepper, Terry. "New Presque Isle Light," *Seeing the Light: The Lighthouses of Lake Huron*, March 15, 2005. <<http://www.terrypepper.com/lights/huron/newpresqisl/newpresqisl.htm>>. June 17, 2005.

# ACTUARIAL SECTION

## *Actuary's Certification Letter*



**GABRIEL, ROEDER, SMITH & COMPANY**

**Consultants & Actuaries**

One Towne Square • Suite 800 • Southfield, Michigan 48076 • 248-799-9000 • 800-521-0498 • fax 248-799-9020

August 6, 2004

The Retirement Board  
Municipal Employees' Retirement System of Michigan  
1134 Municipal Way  
Lansing, Michigan 48917

Dear Board Members:

The basic financial objective of the Municipal Employees' Retirement System of Michigan (MERS) is to establish and receive contributions which:

- (1) when expressed in terms of percents of active member payroll will remain approximately level from generation to generation of Michigan citizens, and which
- (2) when combined with present assets and future investment return will be sufficient to meet the financial obligations of MERS to present and future retirees and beneficiaries.

In order to measure progress toward this fundamental objective, MERS has annual actuarial valuations performed. Separate actuarial valuations are prepared for each participating municipality and court. The valuations (i) measure present financial position, and (ii) establish contribution rates that provide for the normal cost (current cost) and level percent of payroll amortization of unfunded actuarial accrued liabilities over a reasonable period (generally 30 – 32 years). The latest completed actuarial valuations were based upon population data, asset data, and plan provision data as of December 31, 2003. These valuations determine the contribution rates for the fiscal years beginning in 2005.

The actuarial valuations are based upon financial data, plan provision data, and participant data which is prepared by retirement system staff. The data is reviewed by us for internal and year-to-year consistency as well as general reasonableness prior to its use in the actuarial valuations. It is also summarized and tabulated for the purpose of analyzing trends.

Actuarial valuations are based on assumptions regarding future rates of investment return and inflation, and rates of retirement, turnover, death, disability, and pay increase among MERS members and their beneficiaries. These assumptions are adopted by the Board after considering the advice of the actuary and other professionals. The assumptions and methods utilized in this valuation comply with the requirements of Governmental Accounting Standards Board Statement No. 25. The demographic assumptions were adopted by the Retirement Board and were based upon actual experience of MERS during the years 1993 to 1998. The economic assumptions were adopted by the Board in 1998.

Assets are valued on a market related basis that fully recognizes expected investment return and averages unanticipated market return over a five-year period.

Retirement Board  
Page 2

August 6, 2004

Based on the actuarial valuations, MERS staff prepared and we reviewed the following supporting schedules in the Comprehensive Annual Financial Report:

Financial Section

- Schedule of Funding Progress
- Schedule of Employer Contributions (Annual Required Contribution)

Actuarial Section


- Summary of Actuarial Assumptions and Methods
- Probabilities of Retirement
- Rates of Separation (Excluding Death)
- Rates of Separation Due to Disability
- Annual Percentage Increase in Salary
- Schedule of Active Member Valuation Data
- Mortality Tables
- Schedule of Retirees and Beneficiaries Added To and Removed From Rolls
- Solvency Test
- Summary of Plan Document Provisions

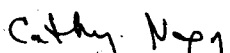
Statistical Section

- Schedule of Retired Members by Type of Benefit
- Schedule of Retired Members by Type of Option Selected
- Active Members Per Pension Recipient
- Benefits as Percent of Active Member Pay

The actuarial valuations were performed by qualified actuaries in accordance with accepted actuarial principles in compliance with Act No. 220 of the Public Acts of 1996, as amended, and the MERS plan document, as revised. **Based upon the valuation results, it is our opinion that the Municipal Employees' Retirement System of Michigan is meeting its basic financial objective and continues in sound condition in accordance with actuarial principles of level percent of payroll financing.**

Respectfully submitted,

  
Alan E. Sonnanstine, MAAA, ASA

  
Cathy Nagy, MAAA, FSA

  
W. James Koss, MAAA, ASA

GABRIEL, ROEDER, SMITH & COMPANY

## Summary of Actuarial Assumptions And Methods



The investment return rate used in making the valuations was 8% per year, compounded annually (Adopted 1981). This rate of return is not the assumed real rate of return. The real rate of return is the rate of investment return in excess of the inflation rate. Considering other financial assumptions, the 8% investment return rate translated to an assumed real rate of return of 3.5% in excess of inflation (Adopted 1998).

Valuation assets (cash and investments) were valued for each municipality using a five-year smoothed market value method. For the 1993 valuation and later, the excess (shortfall) of actual investment income (including interest, dividends, realized, and unrealized gains or losses) over the imputed income at the valuation interest rate is considered the gain (loss) that is spread over five years (Adopted 1994).

The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (MAAA). The assumptions used in the actuarial valuations were adopted by the MERS Retirement Board after consulting with the actuary.

The mortality table used to project the mortality experience of plan members is the 1994 Group Annuity Mortality Table. For disabled retirees, the ages in the regular mortality table have been adjusted by three years to reflect the higher expected mortality rates of disabled members (Adopted 2000).

Sample probabilities of retirement with an age and service allowance are shown on page 63 (Adopted 2000).

Sample probabilities of separation from service before retirement due to disability or other causes are shown on page 65 (Adopted 2000).

The salary increase assumption projects annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity, and promotional increases. Sample rates are shown on page 66 (Adopted 1998).

Total active member payroll is assumed to increase 4.5% plus a percentage based on an age-related scale to reflect merit, longevity and promotional increases. Sample rates are shown on page 66 (Adopted 1998).

An individual entry age actuarial cost method of valuation was used to determine actuarial accrued liabilities and normal cost (Adopted 1994). Unfunded actuarial accrued liabilities are funded over periods ranging between 28 and 33 years, depending on the municipality.

For employers that adopt E-1 or E-2 postretirement benefit increases, retirement benefits are assumed to increase by an annual, non-compounded rate of 2.5% (Adopted 1981).

The most recent experience study for the Retirement System was completed in April 2000, and covered the period January 1, 1993, through December 31, 1998. All assumptions and method changes adopted in 2000 are based on the results of that study.

## *Actuarial Section*

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The Accelerated Funding Credit (AFC) Program has been replaced with a new, less complicated program of contribution credits for overfunded employee divisions. The new program eliminates the complexities of the AFC, simplifies the calculation of the required employer contribution rates, removes much of the variability of contribution rates, and satisfies the requirement of the Governmental Accounting Standards Board (Adopted 2002).

There have been no recent changes in the nature of the plan that have had an impact on the Retirement System. Municipalities have the ability to modify those plan provisions that apply to their individual plan. The individual municipality contribution rates are modified to account for changes in provisions of the plan selected by the municipality.

There have been no changes in the actuarial assumptions or methods that have had a material impact on the December 31, 2003, actuarial valuation results.

The data about persons now covered and about present assets has been furnished by the Retirement System's administrative staff. Although examined for general reasonableness, the data has not been audited by the actuary.

Probabilities of Retirement for Members Eligible to Retire

Percent of Eligible Active Members Retiring Within Next Year\*

Retirement Ages	Without F50 or F55 or F(N)	With F55	With F50
50			22%
51			22
52			22
53			22
54			24
55		18%	18
56		15	14
57		10	16
58		15	18
59		20	18
60	20%	20	20
61	24	24	24
62	24	24	24
63	24	24	24
64	27	27	27
65	30	30	30
66	30	30	30
67	30	30	30
68	30	30	30
69	30	30	30
70	100	100	100

\* Municipalities that adopted a nonstandard benefit multiplier after December 31, 1996, that is in excess of the B-4 2.5% multiplier, will have a retirement rate equal to 75% when they first reach the age at which unreduced plan benefits are available.

*Actuarial Section*

**Normal Retirement - Service Based Benefit F(N) Adopted**

<b>Years of Service</b>	<b>Percent of Eligible Active Members Retiring Within Next Year</b>	<b>Years of Service</b>	<b>Percent of Eligible Active Members Retiring Within Next Year</b>	<b>Years of Service</b>	<b>Percent of Eligible Active Members Retiring Within Next Year</b>
20	22%	31	22%	41	24%
21	22	32	22	42	24
22	22	33	22	43	24
23	22	34	24	44	27
24	22	35	18	45	30
25	22	36	14	46	30
26	22	37	16	47	30
27	22	38	18	48	30
28	22	39	18	49	30
29	22	40	20	50	100
30	22				

Municipalities that have adopted a nonstandard benefit multiplier after December 31, 1996, that is in excess of the B-4, 2.5% multiplier, will have a retirement rate equal to 75% at the first age at which unreduced plan benefits are available.

**Early Retirement - Reduced Benefit**

<b>Retirement Ages</b>	<b>Percent of Eligible Active Members Retiring Within Next Year</b>
50	3%
51	3
52	5
53	8
54	15
55	4
56	4
57	4
58	8
59	10

**Rates of Withdrawal (Excluding Death) from Active Employment Before Retirement**

<b>Sample Ages</b>	<b>Years of Service</b>	<b>Percent of Active Members Withdrawing Within Next Year</b>
	0	18.00%
	1	18.00
	2	16.00
	3	12.00
	4	10.00
20	5 and over	9.00
25		9.00
30		9.00
35		7.00
40		5.00
45		4.00
50		4.00
55		3.00
60		3.00
65		2.00
70		0.00

**Rates of Withdrawal Due to Disability\***

**Percent Becoming Disabled Within Next Year**

<b>Sample Ages</b>	<b>Percent of Active Members Withdrawing Within Next Year</b>
20	0.02%
25	0.02
30	0.02
35	0.02
40	0.05
45	0.12
50	0.25
55	0.40
60	0.45
65	0.50

\* 85% of the disabilities are assumed to be non-duty, and 15% of the disabilities are assumed to be duty related. For those plans that have adopted disability provision D-2, 70% of the disabilities are assumed to be non-duty, and 30% are assumed to be duty related.

**Annual Percentage Increase in Salary**

<b>Sample Ages</b>	<b>Base Inflation</b>	<b>Merit and Longevity</b>	<b>Total Percentage Increase in Salary</b>
20	4.50%	4.16%	8.66%
25	4.50	2.88	7.38
30	4.50	1.98	6.48
35	4.50	1.52	6.02
40	4.50	1.10	5.60
45	4.50	0.66	5.16
50	4.50	0.32	4.82
55	4.50	0.14	4.64
60	4.50	0.00	4.50

**Schedule of Active Member Valuation Data**

<b>Valuation Dec 31</b>	<b>Participating Municipalities</b>	<b>Active Members</b>	<b>Active Members Annual Payroll</b>	<b>Annual Average Pay</b>	<b>Percent Increase in Average Pay</b>	<b>Persons on Deferred Status</b>
1994	463	34,994	\$ 925,500,706	\$26,447	3.9%	2,034
1995	490	35,611	972,975,649	27,322	3.3	2,322
1996	506	36,070	1,025,214,728	28,423	4.0	2,713
1997	529	36,547	1,068,597,733	29,239	2.9	3,752
1998	544	36,817	1,163,056,817	31,590	8.0	4,369
1999	552	36,472	1,179,274,854	32,334	2.4	4,794
2000	560	36,573	1,225,992,204	33,522	3.7	5,303
2001	561	36,583	1,271,563,960	34,758	3.7	5,799
2002	575	37,043	1,327,360,448	35,833	3.1	5,510
2003	594	37,159	1,381,197,725	37,170	3.7	5,575

## MORTALITY TABLES

In estimating the amount of the reserves required at the time of retirement to pay a member's benefit for the remainder of the member's lifetime, it is necessary to make an assumption with respect to the probability of surviving to retirement and life expectancy after retirement.

The mortality table used to project the mortality experience of plan members is the 1994 Group Annuity Mortality Table. For disabled retirees, the ages in the regular mortality tables have been adjusted forward by three years to reflect the higher expected mortality rates of disabled members.

The life expectancies and mortality rates projected by the 1994 Group Annuity Mortality table for non-disabled members are shown below for selected ages:

Age	Expected Years of Life Remaining		Mortality Rates	
	Male	Female	Male	Female
20	58.90	63.60	0.05%	0.03%
25	54.06	58.69	0.07	0.03
30	49.25	53.77	0.08	0.04
35	44.45	48.88	0.09	0.05
40	39.64	44.01	0.11	0.07
45	34.88	39.18	0.16	0.10
50	30.19	34.39	0.26	0.14
55	25.65	29.67	0.44	0.23
60	21.33	25.09	0.80	0.44
65	17.34	20.77	1.45	0.86
70	13.79	16.80	2.37	1.37
75	10.62	13.10	3.72	2.27
80	7.87	9.81	6.20	3.94

The life expectancies and mortality rates projected by the 1994 Group Annuity Mortality table for disabled members are shown below for selected ages:

Age	Expected Years of Life Remaining		Mortality Rates	
	Male	Female	Male	Female
20	55.99	60.65	0.06%	0.03%
25	51.17	55.74	0.08	0.03
30	46.37	50.83	0.08	0.04
35	41.56	45.95	0.09	0.06
40	36.77	41.11	0.14	0.09
45	32.05	36.30	0.21	0.12
50	27.45	31.55	0.36	0.19
55	23.02	26.89	0.63	0.34
60	18.89	22.46	1.15	0.67
65	15.16	18.36	1.99	1.18
70	11.84	14.54	3.12	1.83
75	8.90	11.07	5.02	3.17
80	6.50	8.08	8.25	5.49

**Schedule of Retirees and Beneficiaries Added to and Removed from Rolls**

Valuation Dec 31	Added to Rolls		Removed From Rolls		End of Year Rolls		% Increase in Annual Allowance	Average Annual Allowance
	Retirees/ Beneficiaries Number	Annual Allowance	Retirees/ Beneficiaries Number	Annual Allowance	Retirees/ Beneficiaries Number	Annual Allowance		
1994	946	\$ 12,978,853	494	\$ 2,716,142	12,492	\$ 91,226,923	12.7 %	\$ 7,303
1995	1,154	13,799,665	614	3,015,915	13,032	102,010,673	11.8	7,828
1996	824	10,582,845	593	2,752,328	13,263	109,841,190	7.7	8,282
1997	1,504	16,305,680	531	3,033,941	14,236	123,112,929	12.1	8,648
1998	1,122	19,230,034	568	3,642,223	14,790	138,700,740	12.6	9,378
1999	1,312	19,663,240	777	5,592,269	15,325	152,771,711	10.1	9,969
2000	1,319	23,588,044	369	2,810,133	16,275	173,549,622	13.6	10,664
2001	1,238	22,971,336	608	4,723,312	16,905	191,785,646	10.5	11,345
2002	1,275	25,079,342	642	5,882,066	17,538	210,982,922	10.0	12,030
2003	1,577	31,229,077	672	5,623,367	18,443	236,588,632	12.1	12,828

## SOLVENCY TEST

The solvency test is another means of checking a retirement system's progress under its funding program, based on the aggregate accrued liability. In this test, the plan's present assets (actuarial value) are compared with obligations in order of priority: (1) active member contributions on deposit; (2) the present value of future benefits to present retired lives; and (3) the aggregate accrued liability for present active members. In a system that has been following the discipline of level percent of payroll financing, the obligation for active member contribution on deposit (present value 1) and the present value of future benefits to present retired lives (present value 2) will be fully covered by present assets (except in rare circumstances). In addition, the aggregate accrued liability for present active members (present value 3) will be partially covered by the remainder of present assets. Generally, if a retirement system has been using level cost financing, the funded portion of present value 3 will increase over time.

The Solvency Test illustrates the history of the obligation of the Retirement System and reflects the MERS policy of following the discipline of level percent payroll financing. The solvency of the system remains sound. The previous years' market downturn has affected the funding level of the system somewhat. However, many municipalities have adopted richer benefits in recent years that have dampened the funding level of the system. The system as a whole remains on track for meeting its obligations.

### Solvency Test (Dollars in Millions)

Valuation Date Dec 31	Aggregate Accrued Liabilities			Valuation Assets	Portion of Accrued Liabilities		
	(1)	(2)	(3)		(1)	(2)	(3)
	Active Member Contributions	Retirees and Beneficiaries	Active Members (Employer- Financed Portion)				
1994	\$ 239.0	\$ 844.4	\$ 1,385.9	\$ 1,986.6	100%	100%	65.2%
1995	250.6	968.4	1,524.8	2,166.9	100	100	62.2
1996 *	269.3	1,041.1	1,688.6	2,416.4	100	100	65.5
1997 **	277.5	1,174.7	1,833.0	2,692.7	100	100	67.7
1998	291.9	1,316.2	1,983.9	3,030.4	100	100	71.7
1999	305.5	1,463.2	2,066.9	3,464.9	100	100	82.1
2000	318.4	1,744.6	2,334.0	3,787.2	100	100	73.9
2001	336.5	1,944.6	2,502.8	4,034.4	100	100	70.1
2002	359.2	2,159.1	2,662.8	4,133.0	100	100	60.6
2003	396.7	2,435.2	2,835.8	4,459.5	100	100	57.4

\* 1996 includes accrued liabilities for member contributions, retirees, beneficiaries, and active members (employer-financed portion) amounting to \$4.0 million, \$6.1 million, and \$13.2 million, respectively; and related assets of \$29.6 million for 14 municipalities that in various years have separated from MERS, but have remaining obligations for retirees or deferred plan members entitled to MERS pension benefits. Exclusive of these liabilities and assets, the active members (employer-financed portion) would have been 64.8% funded.

\*\* 1997 had revised economic assumptions.

## Summary of Plan Document Provisions



The benefits summarized in this section are intended only as general information regarding the Municipal Employees' Retirement System of Michigan (MERS). They are not a substitute for Act No. 220 of the Public Acts of 1996 and the MERS Plan Document, as revised. If any conflict occurs between the information in this summary and Act No. 220 of the Public Acts of 1996, or the MERS Plan Document, as revised, the provision of Act No. 220 and the MERS Plan Document govern.

The December 31, 2003, Actuarial Valuation was based upon the provisions of the MERS Plan Document summarized below. This information related to the MERS Defined Benefit Plan.

Monthly retirement payments are made over the lifetime of the retirant and/or over the lifetime of the beneficiary, depending upon choice of benefits adopted by each municipality and final payment option elected by the retiring member.

Vesting occurs after 10 years of credited service, unless the municipality selects a lesser number of years.

Final Average Compensation (FAC) is the highest monthly average of a member's compensation over a consecutive period of months of credited service. The municipality selects the number of months. FAC-3 is over 36 months. FAC-5 is over 60 months.

Normal retirement for a member occurs after vesting and attaining age 60. The municipality may choose other combinations of age and service such as age 55 and 15 years service, age 50 and 25 years of service, etc. There is no mandatory retirement age.

### **Benefit Formula**

The annual benefit equals a specified percentage of the member's FAC multiplied by the number of years and months of credited service. The plan has several benefit programs available with percentages that vary from 1.3% to 2.5% that may be selected by a participating municipality.

### **Early Retirement**

Early retirement occurs if the vested member meets the credited service requirements but not the age requirement. The monthly payment is reduced (unless waived by the municipality) for each month that the member is younger than the minimum retirement age.

### **Deferred Retirement**

Deferred retirement occurs when the employee leaves MERS covered employment after vesting but before reaching the minimum retirement age. This member or beneficiary will become eligible for the deferred allowance once the member reaches the minimum retirement age provided the member's contributions remain on deposit with MERS.

### **Disability Benefit – Duty or Non-Duty**

Duty disability is available to a member who becomes totally and permanently disabled due to a duty-related injury or disease. This benefit is calculated like a normal allowance without regard to the vesting requirement or to age. The benefit shall not be less than 25% of FAC.

Non-duty disability is available to a vested member who becomes totally and permanently disabled for reasons other than from duty-related causes. This allowance is calculated like a normal allowance without regard to age.

Benefits for duty and non-duty disability retirants who have not attained age 60 shall not exceed the difference between 100% of FAC and the amount of the retirant's considered income. Continuing medical examinations may be required.

#### **Survivor Benefit**

Upon death of a vested nonretired member, the eligible surviving dependents would receive a portion of the normal retirement at the time of death. The surviving spouse would receive 85%. If no surviving spouse, each unmarried child under 21 would receive an equal share of 50%. If the death were duty related, the surviving spouse would receive the higher of 85% or 25% of the FAC, after waiver of the vesting requirement.

#### **Postretirement Adjustments**

Each municipality may elect to provide postretirement adjustments to retirees and their beneficiaries. The municipality can choose one-time adjustments or an annual adjustment for all retirees or for future retirees only. This Cost of Living Adjustment (COLA) "type of increase" is effective in January of each year.

#### **Forms of Benefit Payment**

The member elects one of the following payment options as part of the retirement application process. Once the election is made, it is irrevocable after receipt of first payment. The options include:

1. Straight life over the retirant's life only.
2. Reduced to cover retirant and beneficiary as long as either live.
3. Reduced to cover retirant for their lifetime and further reduced to 75% or 50% of the original reduced amount to cover beneficiary if the beneficiary outlives the retirant.
4. A reduced benefit for the retirant's life guaranteed for a specified number of years. The reduced benefit continues for the beneficiary even if the retirant dies, but terminates after the guaranteed number of years.

#### **Changes in Plan Provisions**

There have been no changes in the Plan Document that have had a material impact on the December 31, 2003, actuarial valuation.

Pursuant to a collective bargaining agreement, a participating municipality may provide for retirement benefits that are modifications of standard retirement benefits otherwise included in the plan. These modifications were taken into consideration when determining the municipality contribution rates on the December 31, 2003 actuarial valuation.

Schedule of Additions to Plan Net Assets - Defined Benefit Plan

(Thousands of Dollars)

Fiscal Year Ended	Member Contributions	Employer Contributions		Investment and Misc. Income	Total
		Dollars	% of Annual Covered Payroll		
Sept. 30, 1995	\$ 20,999	\$ 49,471	5.3 %	\$ 354,731	\$ 425,201
Sept. 30, 1996	26,611	67,329	6.9	280,705	374,645
Dec. 31, 1997*	28,508	113,711	8.9	477,040	619,259
Dec. 31, 1998	27,633	115,956	9.9	416,705	560,294
Dec. 31, 1999	27,977	132,557	11.2	562,567	723,101
Dec. 31, 2000	30,823	131,881	9.5	(122,407)	40,297
Dec. 31, 2001	32,164	121,940	10.1	(87,510)	66,594
Dec. 31, 2002	39,625	127,802	11.6	(317,923)	(150,496)
Dec. 31, 2003	62,422	161,029	11.7	800,189	1,023,640
Dec. 31, 2004	55,409	167,943	11.4	587,519	810,871

\* The 1997 Revenue covered 15 months. The Employer Contributions as a percentage of Annual Covered Payroll was calculated on an annualized basis. Investment Income and Total Income has been restated for prior years to be consistent with the requirements of GASB 25.

**Schedule of Deductions from Plan Net Assets - Defined Benefit Plan**

**(Thousands of Dollars)**

<b>Fiscal Year Ended</b>	<b>Benefit Payments</b>	<b>Administrative and Special Expenses</b>	<b>Refunds</b>	<b>Transfers to MERS DC Program</b>	<b>Total</b>
Sept. 30, 1995	\$ 94,245	\$ 1,980	\$ 3,204		\$ 99,429
Sept. 30, 1996	104,627	2,594	4,666		111,887
Dec. 31, 1997*	146,225	5,526	4,085		155,836
Dec. 31, 1998	131,690	4,871	7,769	\$ 8,302	152,632
Dec. 31, 1999	147,833	5,922	8,272	30,398	192,425
Dec. 31, 2000	162,827	6,881	8,994	14,573	193,275
Dec. 31, 2001	182,272	6,170	5,414	13,804	207,660
Dec. 31, 2002	200,794	7,370	3,366	491	212,021
Dec. 31, 2003	221,137	8,428	3,542	3,840	236,947
Dec. 31, 2004**	247,454	10,344	5,253	322	263,373

\* Fiscal 1997 included 15 months of expenses.

\*\* Refunds for 2004 includes \$1,728 in Employer refunds.

**Schedule of Benefit Expenses by Type - Defined Benefit Plan**

**(Thousands of Dollars)**

<b>Fiscal Year Ended</b>	<b>Regular Benefits</b>	<b>Disability Benefits</b>	<b>Employee Refunds</b>	<b>Total</b>
Sept. 30, 1995	\$ 91,720	\$ 2,525	\$ 3,204	\$ 97,449
Sept. 30, 1996	101,280	3,347	4,666	109,293
Dec. 31, 1997 *	141,749	4,476	4,085	150,310
Dec. 31, 1998 **	127,608	4,082	3,743	135,433
Dec. 31, 1999	143,309	4,524	4,433	152,266
Dec. 31, 2000	155,853	6,974	3,964	166,791
Dec. 31, 2001	174,635	7,638	5,199	187,472
Dec. 31, 2002	192,540	8,254	3,366	204,160
Dec. 31, 2003	212,612	8,526	3,542	224,680
Dec. 31, 2004	237,916	9,538	3,525	250,979

\* Fiscal 1997 included 15 months of expenses.

\*\* Disability benefits estimated based on prior fiscal year's ratio to total benefits.

*Statistical Section*

**Schedule of Retired Members by Type of Benefit - Defined Benefit Plan**

**December 31, 2003  
Tabulated by Optional Form of Benefit Being Paid**

Monthly Benefit	All Retired Members	Type of Annuity					
		1	2	3	4	5	6
\$ 0-199	1,978	1,250	47	27	535	118	1
200-399	3,135	2,119	122	56	669	156	13
400-599	2,531	1,782	152	51	421	112	13
600-799	1,935	1,449	103	38	256	79	10
800-999	1,527	1,192	80	33	151	64	7
1,000-1,199	1,259	1,012	67	24	115	38	3
1,200-1,399	1,032	852	45	10	100	23	2
1,400-1,599	859	732	30	12	64	20	1
1,600-1,799	747	658	22	6	39	19	3
1,800-1,999	644	586	19	2	24	12	1
2,000 & over	2,796	2,687	20	6	53	29	1
<b>Totals</b>	<b>18,443</b>	<b>14,319</b>	<b>707</b>	<b>265</b>	<b>2,427</b>	<b>670</b>	<b>55</b>
<b>Total Monthly Benefit</b>	<b>\$19,715,720</b>	<b>\$17,083,405</b>	<b>\$560,044</b>	<b>\$189,569</b>	<b>\$1,382,902</b>	<b>\$458,693</b>	<b>\$41,107</b>

**Type of Annuity**

1. Normal Retirement for age and service
2. Non-Duty Disability\*
3. Duty Disability\*
4. Beneficiaries
5. Non-Duty Death
6. Duty Death

\* At age 60, these annuity types are converted to Type 1, normal retirement for age and service.

*Statistical Section*

**Schedule of Retired Members by Type of Option Selected - Defined Benefit Plan**

**December 31, 2003**  
**Tabulated by Optional Form of Benefit Being Paid**

Monthly Benefit	All Retired Members	Form of Annuity									
		1	2	3	4	5	6	7	8	9	10
\$ 0-199	1,978	625	11	0	274	66	16	11	9	9	957
200-399	3,135	832	18	0	414	95	24	31	14	16	1,691
400-599	2,531	714	34	1	335	58	23	23	15	17	1,311
600-799	1,935	519	34	0	286	46	31	31	9	16	963
800-999	1,527	393	37	1	271	25	34	28	8	10	720
1,000-1,199	1,259	376	39	2	228	24	14	26	7	9	534
1,200-1,399	1,032	314	35	1	216	13	10	6	3	7	427
1,400-1,599	859	282	38	1	189	11	9	8	3	5	313
1,600-1,799	747	235	45	0	149	17	9	10	2	8	272
1,800-1,999	644	206	35	0	154	8	8	7	4	3	219
2,000 & over	2,796	795	261	2	711	43	30	38	17	22	877
<b>Totals</b>	<b>18,443</b>	<b>5,291</b>	<b>587</b>	<b>8</b>	<b>3,227</b>	<b>406</b>	<b>208</b>	<b>219</b>	<b>91</b>	<b>122</b>	<b>8,284</b>
<b>Total Monthly</b>											
<b>Benefit</b>	<b>\$19,715,720</b>	<b>\$5,684,104</b>	<b>\$1,164,439</b>	<b>\$11,308</b>	<b>\$4,224,646</b>	<b>\$351,896</b>	<b>\$232,375</b>	<b>\$250,268</b>	<b>\$97,733</b>	<b>\$141,337</b>	<b>\$7,557,614</b>

**Type of Annuity**

1. Beneficiary draws 100% of retiree's benefit
2. Beneficiary draws 75% of retiree's benefit
3. Beneficiary draws 60% of retiree's benefit
4. Beneficiary draws 50% of retiree's benefit
5. Equated option (changing at social security age)
6. 5 year certain and life
7. 10 year certain and life
8. 15 year certain and life
9. 20 year certain and life
10. Straight life allowance

*Statistical Section*

**Schedule of Average Benefit Payments - Defined Benefit Plan**

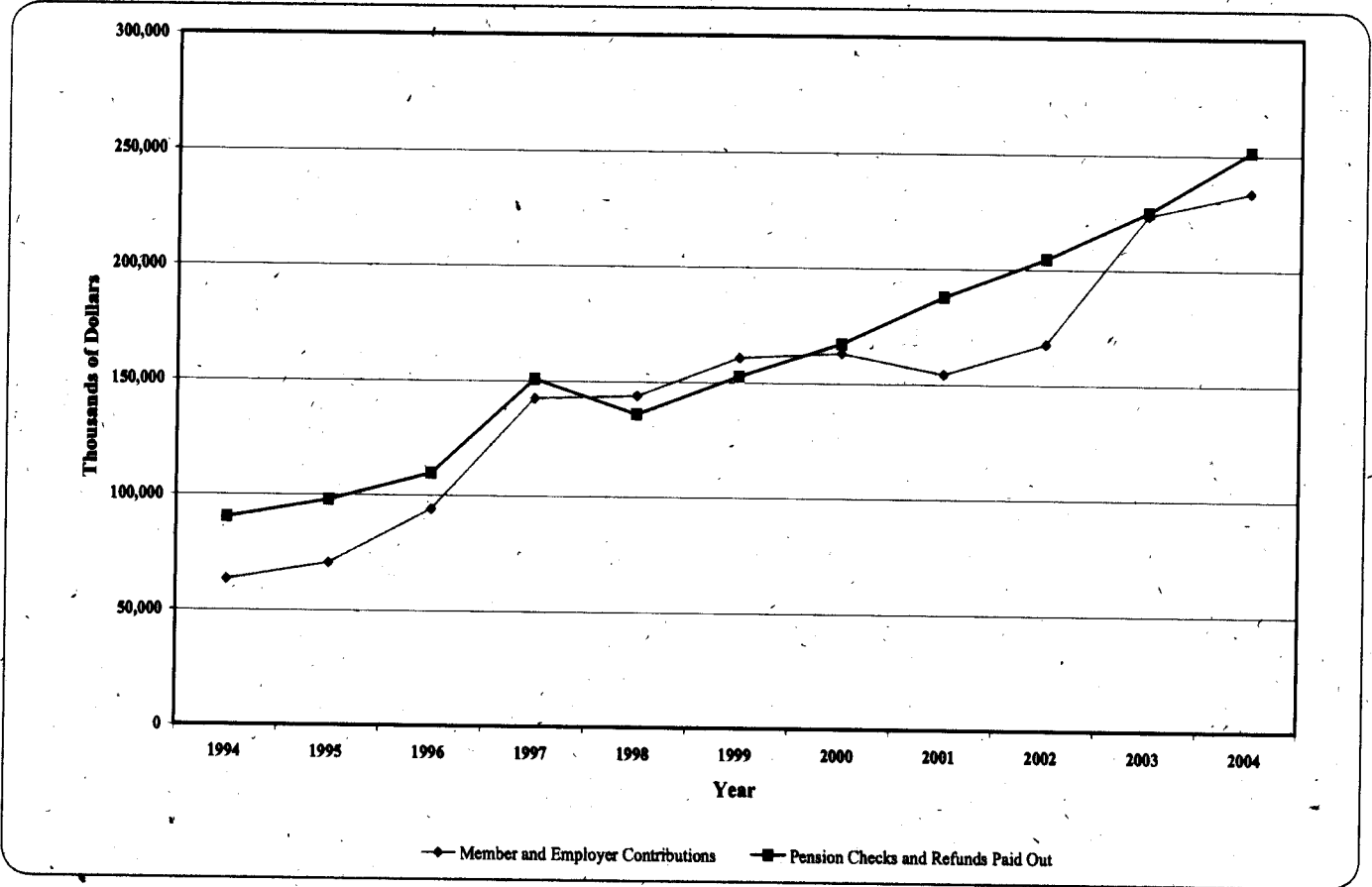
<b>Valuation Date December 31</b>	<b>Number of Retirees and Beneficiaries</b>	<b>Average Yearly Benefit</b>
1994	12,492	\$ 7,303
1995	13,032	7,828
1996	13,263	8,282
1997	14,192	8,770
1998	14,790	9,378
1999	15,325	9,975
2000	16,275	10,664
2001	16,905	11,345
2002	17,538	12,030
2003	18,443	12,828

Although Defined Contribution Plan (DC) participants are not included in the annual actuarial evaluation of the MERS Defined Benefit Plan (DB), the trend in DC participation is of interest. Numerous municipality divisions have established DC benefits for future new employees. Existing DB active members in those divisions were offered the choice of plans. The table below shows recent trends in DC participation and overall MERS participants.

**Defined Contribution Plan Participants and Total MERS Participants**

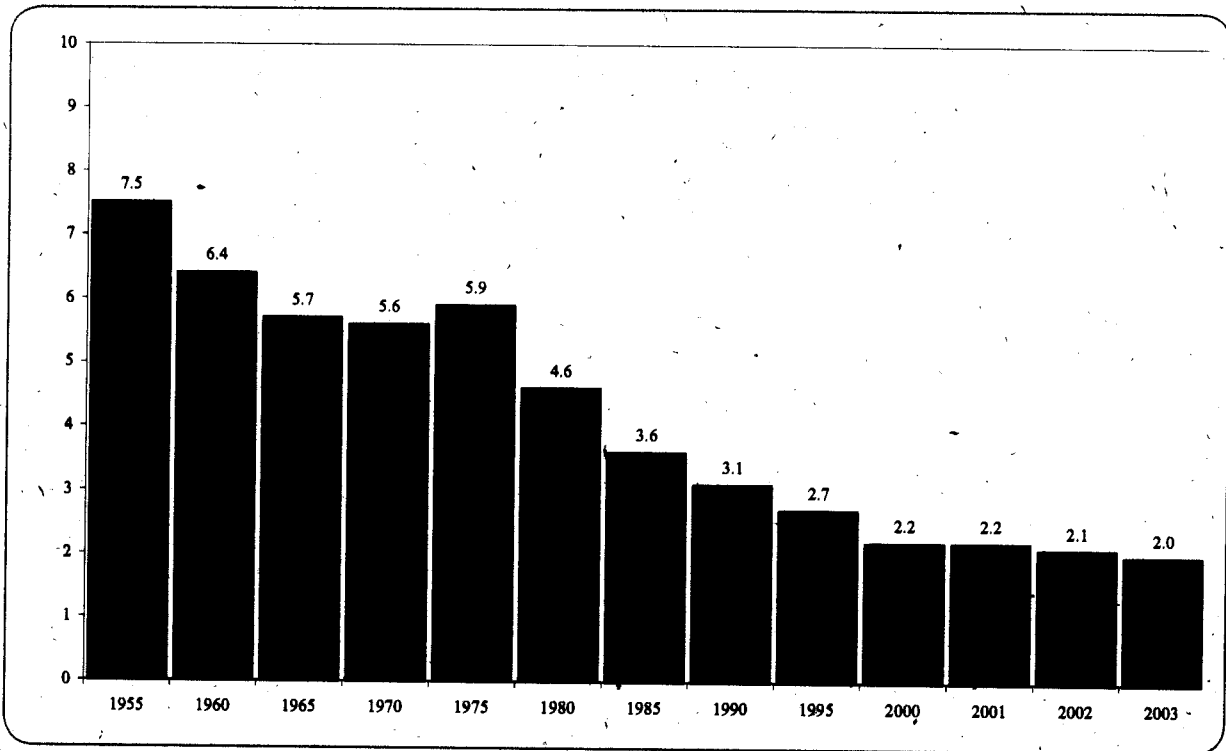
<b>Item</b>	<b>December 31, 2004</b>	<b>December 31, 2003</b>	<b>December 31, 2002</b>	<b>December 31, 2001</b>
<b>Number of Participants</b>				
Total	67,100	65,756	64,086	63,714
Defined Benefit Plan	61,346	60,569	59,343	59,287
% of Total	91.4%	92.1%	92.6%	93.1%
Defined Contribution Program	5,754	5,187	4,743	4,427
% of Total	8.6%	7.9%	7.4%	6.9%

### Comparison of Member and Employer Contributions vs. Pension Checks and Refunds Paid Out for the Defined Benefit Plan

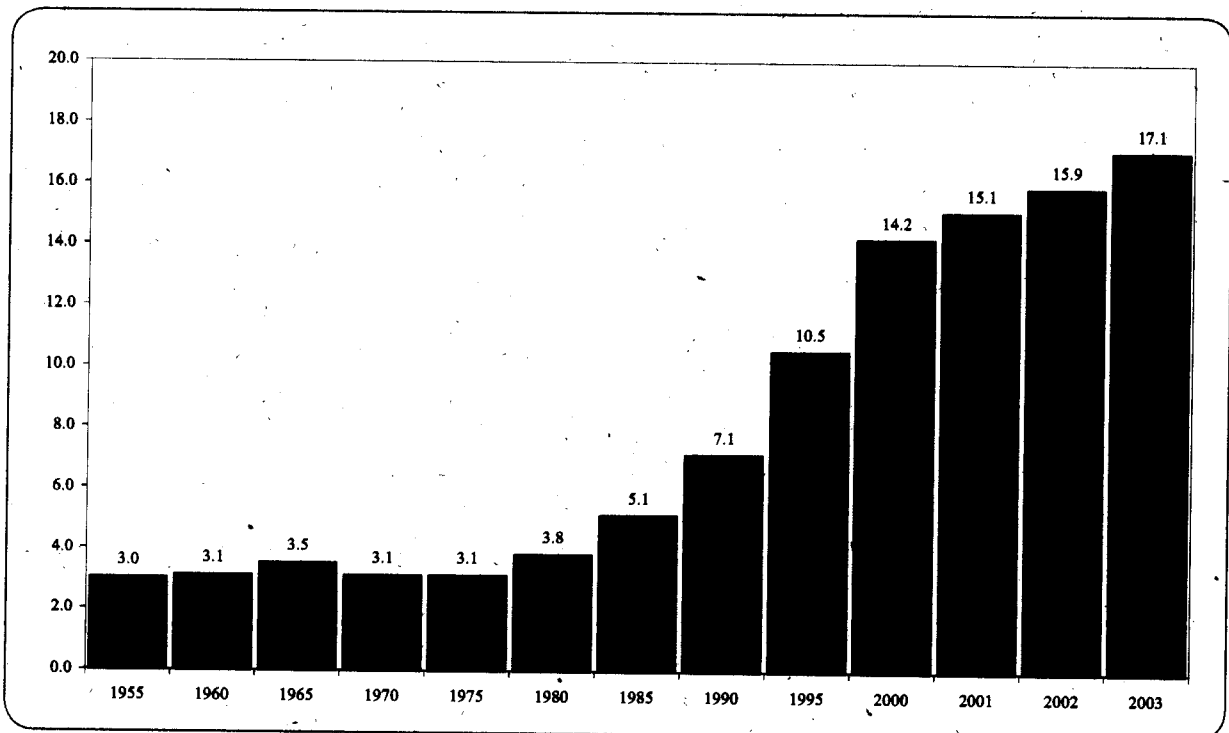


The graph above shows the maturation of MERS for the Defined Benefit Plan. An aging population and an increase in employees retiring over the past few years has resulted in more pension funds paid out than MERS received in employee/employer contributions. This is considered normal cycling for a mature retirement system. MERS received \$223,351,641 from employer/employee contributions in 2004 (\$14,305,574 of that amount was from new municipalities). MERS paid out \$252,706,915 (\$247,454,263 in pension payments and \$5,252,652 in employee refunds).

### Active Members Per Pension Recipient



### Benefits as Percent of Active Member Pay



Charts 1 and 2 illustrate how MERS has matured over the years. Over time, the number of active members per retiree has declined from 7.5 to 2.0. The benefit payout as a percentage of active member payrolls has increased to over 17%.

*Statistical Section*

**Schedule of Changes in Reserves for the Fiscal Year Ended December 31, 2004**

	Reserve for Employee Contributions	Reserve for Employer Contributions and Benefit Payments	Reserve for Expenses and Undistributed Investment Income	Total Reserve for Defined Benefit Plan	Reserve for Defined Contribution Plan	Reserve for Health Care Savings Program	Reserve for Retiree Health Funding Vehicle	Total Reserve for Pension Trust Funds
<b>Additions</b>								
Member Contributions								
Regular	\$ 50,978,247			\$ 50,978,247	\$ 4,301,952	\$ 88,884		\$ 55,369,083
Purchase of Service Credit	4,430,458	\$ 628,723		5,059,181				5,059,181
Employer contributions		167,314,213		167,314,213	12,664,264	1,300,103	\$ 1,312,526	182,591,106
Net Investment Income			\$ 586,700,343	586,700,343	10,410,317	130,020	108,716	597,349,396
Miscellaneous Income			819,466	819,466				819,466
Transfers from Defined Benefit Plan					321,966			321,966
Transfers from Other Plans					5,356,930			5,356,930
<b>Total Additions</b>	<b>55,408,705</b>	<b>167,942,936</b>	<b>587,519,809</b>	<b>810,871,450</b>	<b>33,055,429</b>	<b>1,519,007</b>	<b>1,421,242</b>	<b>846,867,128</b>
<b>Deductions</b>								
Retirement Benefits		247,454,263		247,454,263	6,453,035	11,484		253,918,782
Refund of Contributions	3,525,082	1,727,570		5,252,652				5,252,652
Administrative Expense			9,957,057	9,957,057		184,404	2,590	10,144,051
Special Expenses and Fees		387,031		387,031				387,031
Transfers to DC Plan	1,284	320,682		321,966				321,966
<b>Total Deductions</b>	<b>3,526,366</b>	<b>249,889,546</b>	<b>9,957,057</b>	<b>263,372,969</b>	<b>6,453,035</b>	<b>195,888</b>	<b>2,590</b>	<b>270,024,482</b>
<b>Net Increase (Decrease)</b>	<b>51,882,339</b>	<b>(81,946,610)</b>	<b>577,562,752</b>	<b>547,498,481</b>	<b>26,602,394</b>	<b>1,323,119</b>	<b>1,418,652</b>	<b>576,842,646</b>
<b>Other Changes in Reserves</b>								
Investment Income Allocations	5,659,296	571,903,456	(577,562,752)					
Retirement and Unclaimed Transfers	(30,671,368)	30,671,368						
<b>Total Other Changes in Reserves</b>	<b>(25,012,072)</b>	<b>602,574,824</b>	<b>(577,562,752)</b>					
<b>Net Increase (Decrease) in Reserves After Other Changes</b>	<b>26,870,267</b>	<b>520,628,214</b>		<b>547,498,481</b>	<b>26,602,394</b>	<b>1,323,119</b>	<b>1,418,652</b>	<b>576,842,646</b>
<b>Reserve Balance Beginning of Year</b>	<b>407,362,554</b>	<b>3,664,634,626</b>		<b>4,071,997,180</b>	<b>117,481,177</b>	<b>0</b>	<b>0</b>	<b>4,189,478,357</b>
<b>Reserve Balance End of Year</b>	<b>\$ 434,232,821</b>	<b>\$ 4,185,262,840</b>	<b>\$ -</b>	<b>\$ 4,619,495,661</b>	<b>\$ 144,083,571</b>	<b>\$ 1,323,119</b>	<b>\$ 1,418,652</b>	<b>\$ 4,766,321,003</b>

### Schedule of Participating Municipalities - Defined Benefit Plan for the Year Ended December 31, 2004

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Addison Fire Department	2	0	0	\$ -	\$ 12,955	12,955
Adrian, City of	158	15	107	4,074,796	30,435,198	34,509,994
Albion, City of	48	27	103	313,784	13,938,131	14,251,915
Alcona County	62	6	40	242,883	5,366,448	5,609,331
Alger County	36	4	19	136,932	4,630,255	4,767,187
Alger County Road Commission	33	1	40	952,618	5,060,241	6,012,859
Algonac, City of	28	7	4	703,693	1,862,600	2,566,293
Allegan County	160	101	192	2,415,785	28,682,147	31,097,932
Allegan County Road Commission	71	3	52	2,243,874	10,636,289	12,880,163
Allegan, City of	11	4	3	4,253	1,390,806	1,395,059
Alma, City of	85	8	66	2,388,571	12,646,462	15,035,033
Almont, Village of	15	0	1	208,268	651,280	859,548
Alpena County	102	18	61	298,524	8,790,496	9,089,020
Alpena County Road Commission	36	1	35	216,097	6,988,398	7,204,495
Alpena General Hospital	552	40	282	3,291,689	84,606,609	87,898,298
Alpena Senior Citizens Center	4	2	4	-	287,489	287,489
Alpha, Village of	1	1	0	-	26,168	26,168
Antrim County	323	42	109	881,402	15,291,093	16,172,495
Antrim County Road Commission	44	0	40	195,469	5,927,461	6,122,930
Arenac County	85	16	38	493,039	4,408,232	4,901,271
Arenac County Road Commission	28	0	24	23,742	2,497,383	2,521,125
Ash Township	3	0	3	30,652	163,453	194,105
Au Gres, City of	5	1	5	-	882,651	882,651
Auburn, City of	8	0	3	215,742	852,185	1,067,927
Bad Axe, City of	27	1	5	240,908	2,036,729	2,277,637
Bangor, City of	15	4	11	144,968	1,687,442	1,832,410
Baraga County	33	7	13	10,878	3,087,612	3,098,490
Baraga County Memorial Hospital	176	20	75	324,334	7,489,326	7,813,660
Baraga County Road Commission	30	0	32	10,722	4,086,973	4,097,695
Baraga, Village of	10	2	6	-	1,271,736	1,271,736
Barry County	382	32	145	1,348,104	20,924,154	22,272,258
Barry County Community Mental Health Authority	40	3	0	105,674	1,310,511	1,416,185
Barry-Eaton District Health Department	94	32	34	949,634	6,940,433	7,890,067
Barton Hills, Village of	3	0	1	-	408,504	408,504
Bates Township	2	0	1	-	109,057	109,057
Bath Charter Township	20	1	2	589,167	1,290,290	1,879,457
Battle Creek, City of	419	31	234	5,841,969	62,171,941	68,013,910
Bay City Housing Commission	17	0	18	88,069	3,833,999	3,922,068
Bay City, City of	140	17	268	1,884,269	34,542,935	36,427,204
Bay Metro Transit Authority	107	10	10	245,358	2,582,228	2,827,586
Bayline Public Library	9	0	5	68,444	933,818	1,002,262
Beecher Metropolitan District Sewage and Water System	13	1	9	279,497	3,203,806	3,483,303
Belding, City of	8	0	3	117,219	537,125	654,344
Belleville, City of	22	5	10	109,174	2,546,300	2,655,474
Benzie County	81	26	26	61,905	5,426,275	5,488,180
Benzie County Commission on Aging	9	1	0	-	242,953	242,953
Benzie County Medical Care Facility	103	13	16	270,708	3,693,307	3,964,015
Benzie County Road Commission	37	3	17	372,222	2,252,413	2,624,635
Benzie Shores District Library	1	0	0	11,300	74,372	85,672
Benzie/Leelanau District Health Department	4	0	1	-	242,315	242,315
Berkley, City of	56	10	56	1,277,686	12,563,874	13,841,560
Berrien Springs, Village of	21	6	9	109,895	1,987,552	2,097,447
Bessemer, City of	13	1	19	257,989	1,533,100	1,791,089
Beverly Hills, Village of	15	7	9	36,205	1,974,438	2,010,643
Big Rapids Housing Commission	5	2	3	9,622	555,459	565,081

**Schedule of Participating Municipalities - Defined Benefit Plan  
for the Year Ended December 31, 2004**

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Big Rapids, City of	45	8	38	404,030	6,254,634	6,658,664
Birch Run, Village of	16	2	3	155,202	176,018	331,220
Bishop International Airport Authority	28	2	3	548,801	1,908,049	2,456,850
Blackman Charter Township	25	0	6	751,278	1,486,441	2,237,719
Blissfield, Village of	20	0	4	304,271	1,473,504	1,777,775
Bloomfield Hills, City of	30	3	30	1,475,715	12,387,833	13,863,548
Blue Water Transportation Commission	43	2	7	39,284	1,831,710	1,870,994
Boyer City, City of	40	4	24	1,152,430	4,347,568	5,499,998
Branch County Sheriff's Department	36	0	0	34,616	95,571	130,187
Branch-Hillsdale-St. Joseph District Health	75	8	30	903,564	7,064,292	7,967,856
Breckenridge, Village of	9	2	6	157,571	1,125,672	1,283,243
Bridgeport Charter Township	39	15	20	216,130	3,721,524	3,937,654
Brighton Area Fire Authority	7	0	0	2,626	201,594	204,220
Brighton Township	17	5	3	204,833	604,231	809,064
Brighton, City of	52	3	17	86,926	5,447,498	5,534,424
Britton, Village of	2	0	1	52,341	159,322	211,663
Bronson, City of	4	1	1	66,614	133,952	200,566
Brooklyn, Village of	4	0	3	135,990	607,067	743,057
Buchanan District Library	4	0	0	6,768	8,561	15,329
Buchanan, City of	35	4	35	722,469	5,356,092	6,078,561
Buena Vista Charter Township	38	4	9	1,062,721	4,116,356	5,179,077
Burton, City of	99	10	37	1,148,525	11,364,920	12,513,445
Butman Township	0	4	0	-	92,515	92,515
Cadillac, City of	68	11	46	225,271	9,526,890	9,752,161
Cadillac-Wexford Transit Authority	17	0	2	24,448	420,314	444,762
Calhoun County	163	2	22	4,775,732	1,445,967	6,221,699
Calhoun County Road Commission	82	14	23	112,956	5,844,767	5,957,723
Canton Public Library	15	1	0	943,708	561,581	1,505,289
Canton Township	116	0	6	13,621,685	8,825,907	24,447,592
Capac, Village of	13	2	9	786,885	786,885	786,885
Capital Area District Library	72	1	0	446,495	510,378	956,873
Capital Region Airport Authority	51	7	26	134,190	6,897,329	7,031,519
Carleton, Village of	7	1	2	158,789	283,739	442,528
Cascade Charter Township	36	2	3	1,781,710	331,668	2,113,378
Caseville, Village of	12	1	2	227,492	348,650	576,142
Caspian, City of	6	2	6	407	453,206	453,613
Cass County	130	11	55	2,400,051	9,191,688	11,591,739
Cass County Medical Care Facility	65	4	23	911,722	2,735,797	3,647,519
Cass District Library	12	1	5	57,723	359,758	617,481
Cedar Springs, City of	15	1	8	267,145	1,460,517	1,727,662
Center Line, City of	30	1	44	679,597	5,371,828	6,051,425
Central Dispatch of Muskegon County	24	5	14	505,513	2,750,899	3,256,412
Central Michigan District Health Department	104	33	46	779,366	8,452,873	9,232,239
Central Wayne County Sanitation Authority	0	8	20	90,251	3,070,464	3,160,715
Charlevoix County	371	24	108	573,660	15,184,986	15,758,646
Charlevoix County Road Commission	36	4	38	185,228	4,065,993	4,251,221
Charlevoix, City of	41	4	28	935,228	4,944,630	5,879,858
Charlotte District Library	6	0	2	12,915	267,312	280,227
Charlotte, City of	56	13	35	684,888	9,362,338	10,047,226
Cheboygan County	135	10	51	1,837,333	8,283,186	10,120,519
Cheboygan County Road Commission	52	3	53	649,636	7,674,568	8,324,204
Cheboygan, City of	33	1	32	920,607	4,786,882	5,707,489
Chelsea, City of	27	4	20	7,539	4,565,699	4,573,238
Chesaning, Village of	13	2	9	-	441,834	441,834
Chesterfield Township	113	2	1	2,494,511	695,512	3,190,023

**Schedule of Participating Municipalities - Defined Benefit Plan  
for the Year Ended December 31, 2004**

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Chesterfield Township Library	6	0	0	131,259	105,189	236,448
Chippewa County	177	35	89	1,545,966	17,885,714	19,431,680
Chippewa County Road Commission	66	4	65	54,686	9,666,315	9,721,001
Chippewa River District Library	18	0	0	311,123	908,944	1,220,067
City of Laingsburg	8	0	0	33,297	67,357	100,654
Clare County	139	14	53	1,988,849	8,256,326	10,245,175
Clare County Road Commission	39	0	44	803,479	6,664,409	7,467,888
Clare, City of	27	7	12	736,190	3,011,725	3,747,915
Clawson, City of	35	2	51	127,175	11,282,790	11,409,965
Clay Township	39	3	13	596,887	1,936,989	2,533,876
Clearwater Township	1	0	0	-	17,258	17,258
Clinton County	211	28	87	540,996	19,717,817	20,258,813
Clinton County Road Commission	55	3	45	1,091,927	8,498,152	9,590,079
Clinton Township	245	12	107	6,858,080	28,891,466	35,749,546
Clinton, Village of	17	4	7	108,221	2,278,101	2,386,322
Clinton-Eaton-Ingham Mental Health	597	124	172	4,484,123	52,792,335	57,276,458
Coldwater Board of Public Utilities	29	6	36	599,886	6,209,739	6,809,625
Coldwater, City of	35	10	55	1,567,783	10,971,505	12,539,288
Coleman, City of	6	1	6	205,681	757,922	963,603
Coloma Township	0	0	0	-	51,404	51,404
Columbiaville, Village of	2	0	3	43,720	142,133	185,873
Community Mental Health of Central Michigan	312	86	60	1,388,832	26,310,503	27,699,335
Coopersville, City of	17	2	5	245,397	1,059,426	1,304,823
Corunna City of	16	3	8	42,005	2,432,935	2,474,940
Crawford County	65	16	50	287,895	5,687,982	5,975,877
Crawford County Road Commission	34	2	15	284,266	1,994,806	2,279,072
Crawford County Transit Authority	24	0	4	262,135	2,119,945	2,382,080
Croswell, City of	34	0	15	364,752	3,233,943	3,598,695
Crystal Falls Community Hospital	0	81	44	35,039	3,574,575	3,609,614
Crystal Falls, City of	25	4	21	47,327	5,168,362	5,215,689
Davison Township	12	1	3	194,165	1,231,555	1,425,720
Davison, City of	11	0	2	599,946	1,247,352	1,847,298
Deerfield, Village of	5	0	2	48,981	814,990	863,971
Delta Charter Township	30	2	8	1,007,372	3,877,336	4,884,708
Delta County	122	11	71	1,450,790	13,194,817	13,645,607
Delta County Road Commission	45	3	18	-	2,891,855	2,891,855
Delta-Menominee District Health Department	49	16	9	398,598	4,243,430	4,642,028
Detour, Village of	6	1	1	40	149,073	149,113
Dewitt Charter Township	13	2	1	414,260	824,861	1,239,121
Dewitt, City of	16	10	7	87,644	1,122,866	1,210,510
Dexter Township	12	1	3	121,079	211,456	332,535
Dexter, Village of	19	1	4	364,655	1,406,104	1,770,759
Dickinson County	104	13	46	862,119	11,939,445	12,801,664
Dickinson County Road Commission	36	4	41	210,002	4,983,636	5,193,638
Dickinson-Iron District Health Department	52	14	21	278,564	4,431,930	4,710,494
Dimondale, Village of	6	0	2	-	352,226	352,226
District Health Department Number 2	40	7	17	308,220	3,438,435	3,746,655
District Health Department Number 4	52	12	20	933,947	7,321,473	8,255,420
District Health Department Number 10	49	24	71	284,494	11,889,280	12,173,774
Douglas, Village of	16	4	4	10,813	968,080	978,893
Dowagiac District Library	2	0	0	2,416	1,854	4,270
Dowagiac Housing Commission	2	2	0	2,210	73,458	75,668
Dowagiac, City of	68	12	32	1,541,099	15,519,403	17,060,502
Drummond Island Township	3	0	0	569	8,381	8,950
Dryden, Village of	3	1	1	30,576	270,154	300,730

### Schedule of Participating Municipalities - Defined Benefit Plan for the Year Ended December 31, 2004

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Dundee, Village of	13	0	5	596,605	1,527,042	2,123,647
Durand, City of	23	2	13	86,390	2,603,376	2,689,766
East China, Township of	15	1	10	503,860	3,203,249	3,707,109
East Grand Rapids, City of	14	5	45	410,797	12,435,224	12,846,021
East Jordan, City of	23	4	12	231,763	2,049,196	2,280,959
East Lansing, City of	288	60	232	3,017,935	83,706,638	86,724,573
Eastern Upper Peninsula Transit Authority	23	3	16	9,270	4,016,418	4,025,688
Eastpointe Housing Commission	5	0	0	131,412	26,132	157,544
Eaton County	389	32	159	11,475,883	37,403,961	48,879,844
Eaton County Medical Care Facility	113	5	35	741,310	3,217,704	3,959,014
Eaton Rapids, City of	46	1	7	385,083	3,983,794	4,368,877
Eau Claire, Village of	4	0	3	30,142	204,668	234,810
Ecorse, City of	68	4	99	135,676	14,697,749	14,833,425
Elderly Housing Commission	14	1	9	213,241	1,276,206	1,489,447
Elkton, Village of	3	2	4	124,799	318,232	443,031
Elsie, Village of	8	2	2	59,461	104,776	164,237
Emmet County Road Commission	19	4	46	120,690	7,555,028	7,675,718
Emmet, Charter Township of	23	0	3	595,556	946,168	1,541,724
Escanaba, City of	126	12	89	141,274	17,050,472	17,191,746
Essexville, City of	20	3	22	589,364	3,938,302	4,527,666
Evart Local Development Finance Authority	2	0	0	48,190	124,752	172,942
Evart, City of	11	2	1	51,920	712,487	764,407
Farmington Community Library	24	2	18	571,968	5,036,012	5,607,980
Fenton, City of	52	4	26	187,709	6,326,243	6,513,952
Ferrysburg, City of	9	3	4	175,685	382,153	557,838
Flat Rock, City of	81	2	37	1,779,749	7,373,670	9,153,419
Flint Charter Township	65	4	4	3,052,432	6,971,902	10,024,334
Flint Public Library	32	0	0	-	230,615	230,615
Flushing, Charter Township of	25	1	2	691,082	774,506	1,465,588
Flushing, City of	36	4	26	198,588	6,683,518	6,882,106
Forsyth Township	20	3	5	558,418	1,411,058	1,969,476
Fowler, Village of	2	1	2	-	229,717	229,717
Fowlerville District Library	2	0	0	23,761	62,973	86,734
Fowlerville, Village of	14	3	7	330,800	1,985,708	2,316,508
Frankenmuth, City of	32	3	17	794,091	6,625,656	7,419,747
Frankfort, City of	14	0	12	99,384	1,337,247	1,436,631
Franklin, Village of	14	1	4	206,614	1,825,346	2,031,960
Fraser, City of	0	4	3	112,209	151,749	263,958
Fremont Area District Library	7	1	3	7,093	522,654	529,747
Fremont, City of	27	2	16	3,056	4,697,257	4,700,313
Gaastra, City of	2	0	0	-	62,109	62,109
Gaylord, City of	37	3	12	241,638	4,122,110	4,363,748
Genesee Charter Township	55	1	23	404,740	4,626,168	5,030,908
Genoa Township	1	0	0	1,669	14,026	15,695
Gladstone, City of	25	5	29	100,194	4,965,881	5,066,075
Gladwin County	100	16	47	1,444,836	7,041,161	8,485,997
Gladwin County Road Commission	37	0	29	1,142,627	6,930,130	8,072,757
Gladwin, City of	29	1	0	648,494	359,510	1,008,004
Gogebic-Iron Wastewater Authority	7	0	4	177,780	786,621	964,401
Grand Blanc Charter Township	47	1	7	636,330	2,464,700	3,101,030
Grand Blanc, City of	35	0	1	2,566,083	1,676,759	4,242,842
Grand Haven, City of	192	25	115	3,908,819	52,354,425	56,263,244
Grand Ledge Emergency Services	7	0	0	82,098	102,404	184,502
Grand Rapids Housing	5	1	1	70,675	414,894	485,569
Grand Traverse County	529	120	246	807,414	40,919,261	41,726,675

**Schedule of Participating Municipalities - Defined Benefit Plan  
for the Year Ended December 31, 2004**

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Grand Traverse County Road Commission	21	3	51	47,017	7,309,893	7,356,910
Grandville, City of	37	12	41	345,458	8,818,668	9,164,126
Gratiot County	85	25	70	318,758	12,010,436	12,329,194
Gratiot County Road Commission	42	2	44	984,284	8,450,774	9,435,058
Grayling, City of	20	1	6	-	2,089,431	2,089,431
Green Oak Township	12	1	0	182,312	533,417	715,729
Greenville, City of	19	1	8	382,984	2,485,728	2,868,712
Grosse Ile Township	61	9	24	151,828	11,341,508	11,493,336
Grosse Pointe Park, City of	85	3	83	3,250,697	17,935,211	21,185,908
Grosse Pointes-Clinton Refuse Disposal Authority	0	5	14	282,526	2,645,401	2,927,927
Hackley Public Library	6	0	0	-	5,368	5,368
Hamburg Township	13	0	2	95,829	735,102	530,931
Hamtramck, City of	127	14	293	5,046,711	50,414,813	55,461,524
Hancock, City of	12	0	0	381,730	261,770	643,500
Harbor Beach, City of	20	4	13	909,051	3,037,183	3,946,234
Harrison, City of	13	1	7	195,789	1,259,873	1,455,662
Hartland Deerfield Tyrone Fire	4	0	0	-	-	-
Hastings, City of	66	7	57	387,802	7,620,507	8,008,309
Health Source of Saginaw	333	58	184	1,238,634	22,839,432	24,078,066
Helen Newberry Joy Hospital	86	7	47	1,007,596	8,431,329	9,438,925
Henika District Library	2	0	0	553	241,166	241,719
Herrick District Library	47	3	19	3,018	3,293,506	3,296,524
Hiawatha Community Mental Health Authority	94	32	16	693,227	7,295,193	7,988,420
Highland Park, City of	25	8	52	2,453,795	5,301,714	7,755,509
Hillsdale County	41	1	6	637,431	639,367	1,276,798
Hillsdale County Road Commission	50	2	18	645,634	2,927,763	3,573,397
Hillsdale, City of	86	14	46	2,256,595	11,897,564	14,154,159
Holland Hospital	0	24	78	47,215	2,935,770	2,982,985
Holland, City of	329	47	244	2,503,809	68,764,685	71,268,494
Holly, Village of	37	2	14	299,862	5,575,732	5,875,594
Homer, Village of	11	6	6	31,728	854,037	885,765
Houghton County	97	11	55	561,818	9,790,682	10,352,500
Houghton County Road Commission	7	0	10	17,257	2,519,516	2,536,773
Houghton Lake Public Library	6	0	0	-	186,364	186,364
Howard City, Village of	8	1	7	185	720,469	720,654
Howard Township	2	0	0	-	17,252	17,252
Howell Area Fire Authority	4	0	0	20,471	167,036	187,507
Howell Carnegie District Library	9	1	2	2,608	515,571	518,179
Howell, City of	69	20	27	1,149,562	7,441,550	8,591,112
Hudsonville, City of	9	4	10	43,312	1,072,173	1,115,485
Huntington Woods, City of	32	3	46	941,661	9,544,360	10,486,021
Huron Charter Township	55	0	7	1,255,146	3,483,186	4,738,332
Huron County	333	50	176	7,730,051	37,268,440	44,998,491
Huron County Road Commission	67	2	68	1,966,591	14,454,613	16,421,204
Imley City, City of	22	9	5	17,074	2,701,461	2,718,535
Independence Township	33	0	2	689,032	1,951,555	2,640,587
Indianfields Township	6	4	5	-	53,429	53,429
Ingham County	1,230	240	638	26,137,564	132,389,422	158,526,986
Ingham County Road Commission	100	14	91	899,747	19,238,475	20,138,222
Interurban Transit Authority	7	0	0	11,350	572,431	583,781
Ionia County	60	4	2	618,730	1,611,467	2,230,197
Ionia County Road Commission	44	3	35	444,568	3,391,238	3,835,806
Ionia Housing Commission	4	0	1	34,245	528,741	562,986
Ionia, City of	57	6	26	217,977	4,704,332	4,922,309
Iosco County	238	24	96	331,847	10,926,407	11,258,254

**Schedule of Participating Municipalities - Defined Benefit Plan  
for the Year Ended December 31, 2004**

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Iosco County Road Commission	39	1	20	768,804	3,384,568	4,153,372
Iron County	301	24	127	1,465,715	12,246,074	13,711,789
Iron County Housing Commission	4	1	2		215,516	215,516
Iron County Road Commission	29	2	44	13,019	4,912,163	4,925,182
Iron Mountain, City of	27	2	47	737,161	5,607,084	6,344,245
Iron Mountain-Kingsford Sewage Treatment	5	0	2	145,959	140,393	286,352
Iron River, City of	27	3	30	248,454	3,973,150	4,221,604
Isabella County	277	49	112	610,616	21,710,366	22,320,982
Isabella County Road Commission	52	2	34	1,181,124	5,916,395	7,097,519
Ishpeming Area Joint Wastewater Treatment Facility	5	1	1	125,416	272,941	398,357
Ishpeming Township	12	0	0			
Ishpeming, City of	40	5	35	1,335,345	5,385,677	6,721,022
Ithaca, City of	18	2	9	521,567	1,927,708	2,449,275
Jackson District Library	33	10	18	717,269	3,889,840	4,607,109
Jackson Transportation Authority	73	3	2	457,041	1,573,513	2,030,554
Jordan Valley District Library	2	0	1		110,300	110,300
Kalamazoo Lake Sewer and Water Authority	8	4	2	4,999	562,390	567,389
Kalamazoo Public Library	47	0	1		1,201,401	1,201,401
Kalkaska County	103	16	29	635,563	7,568,080	8,203,643
Kalkaska County Road Commission	35	1	38	665	4,472,558	4,473,223
Kalkaska Public Transit Authority	24	0	4	158,825	736,009	894,834
Kalkaska, Village of	14	0	6	267,387	1,960,383	2,227,770
Keego Harbor, City of	14	7	6	84,516	1,408,010	1,492,526
Kent County Community Mental Health Authority	103	4	3	1,843,721	10,707,756	12,551,477
Keweenaw County	18	2	4	89,758	792,318	882,076
Keweenaw County Road Commission	22	0	14	18,720	3,650,320	3,669,040
Kinde, Village of	1	0	1	153	86,554	86,707
Kingsford, City of	23	2	17	603,435	3,103,332	3,706,767
Lake County	115	13	26	470,536	4,081,037	4,551,573
Lake County Road Commission	34	2	28	305,624	4,433,434	4,739,058
Lake Linden, Village of	9	2	3		475,739	475,739
Lake Odessa, Village of	0	0	3		69,213	69,213
Lake Orion, Village of	18	1	11	188,801	2,682,977	2,871,778
Lakeland Library Cooperative	12	0	0	112,220	368,658	480,878
Lakeshore Coordinating Council	6	1	1		601,010	601,010
L'Anse, Village of	22	3	4	468,574	1,842,226	2,310,800
Lansing Housing Commission	51	6	16	24,270	5,711,708	5,735,978
Lapeer County	727	79	180	2,084,684	41,455,913	43,540,597
Lapeer County Road Commission	57	3	50	1,700,178	5,041,273	6,741,451
Lapeer District Library	27	2	9	114,449	1,665,397	1,779,846
Lapeer, City of	74	14	40	198,414	9,390,319	9,588,733
Lathrup Village, City of	21	1	13	878,398	3,804,257	4,682,655
Laurium, Village of	11	2	15		848,530	848,530
Lawrence, Village of	1	3	1		130,744	130,744
Leelanau County	117	16	31	240,221	7,684,347	7,924,568
Leelanau County Road Commission	41	2	13	496,416	1,096,941	1,593,357
Leoni Township	35	5	9	1,407,650	2,126,154	3,533,804
Leslie, City of	10	0	1	151,984	446,754	598,738
Lexington, Village of	15	0	2	152,204	562,701	714,905
Library Network	40	6	21	722,201	3,347,358	4,069,559
Lima Township	6	0	3	53,887	95,370	149,257
Livingston County	590	66	167	763,175	46,699,419	47,462,594
Livingston County Community Mental Health Authority	118	23	12	20,634	6,944,821	6,965,455
Livingston County Road Commission	69	5	47	768,841	10,883,249	11,652,090
Looking Glass Regional Fire	4	0	0		1,947	1,947

**Schedule of Participating Municipalities - Defined Benefit Plan  
for the Year Ended December 31, 2004**

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Loutit District Library	14	0	1	61,963	516,285	578,248
Lowell, City of	45	3	19	1,366,603	4,485,429	5,852,032
Luce County	37	14	16	15,778	2,064,861	2,080,639
Luce County Road Commission	27	2	30	4,478	3,913,122	3,917,600
Luce-Mackinac-Alger-Schoolcraft District Health Department	96	117	35	7,780	6,226,849	6,234,629
Ludington, City of	55	8	51	60,678	10,850,896	10,911,574
Ludington-Mason District Library	15	0	4	5,545	917,357	922,902
Luna Pier, City of	9	0	10	407,758	2,198,495	2,606,253
Lyons, Village of	3	0	0	6,602	14,804	21,406
Mackinac County	58	25	59	82,742	7,254,057	7,336,799
Mackinac County Road Commission	25	6	27	8,424	3,304,090	3,312,514
Mackinac Straits Hospital and Health Center	231	8	24	1,354,443	5,163,013	6,517,456
Mackinaw City, Village of	5	0	0	237,384	17,864	255,248
Madison Heights, City of	115	14	94	1,057,928	22,268,626	23,326,554
Madison Township	11	1	4	167,437	226,793	394,230
Manistee County	287	38	108	1,014,980	16,815,701	17,830,681
Manistee County Road Commission	44	4	26		3,763,734	3,763,734
Manistique, City of	27	1	27	71,570	4,584,287	4,655,857
Manlius Township	6	0	0	26,242	57,401	83,643
Manton, City of	7	2	6	134,186	454,787	588,973
Marine City, City of	0	0	4		59,195	59,195
Marion, Village of	6	1	3	56,307	229,030	285,337
Marquette Board of Light & Power	68	2	82	2,577,325	19,325,334	21,902,659
Marquette Charter Township	7	0	0	176,436	209,798	386,234
Marquette County	410	49	162	3,047,027	36,623,173	39,670,200
Marquette County Airport	8	0	6	32,211	1,219,669	1,251,880
Marquette County Road Commission	72	5	47	1,238,607	7,657,350	8,895,957
Marquette County Solid Waste Management	6	3	1	193,713	425,118	618,831
Marquette County Transit Authority	24	2	3	386,752	1,181,568	1,568,320
Marquette, City of	137	15	80	4,100,021	19,509,916	23,609,937
Marshall District Library	1	0	0	37,904	199,228	237,132
Marshall, City of	96	6	62	2,733,336	17,771,560	20,504,896
Mason County	192	44	126	136,010	27,055,195	27,191,205
Mason County Road Commission	38	1	7	478,960	1,469,220	1,948,180
Mason, City of	43	2	21	1,819,493	6,740,227	8,559,720
Mason-Oceana 911 Central Dispatch	19	0	0	162,922	351,121	514,043
Mastodon Township	0	0	1		50,744	50,744
MBS International Airport	27	1	13	151,761	4,597,666	4,749,427
Meceola Central Dispatch	17	3	2	496	672,995	673,491
Mecosta County	100	42	71	525,140	15,430,286	15,955,426
Mecosta County General Hospital	0	134	77	361,575	7,857,272	8,218,847
Mecosta County Road Commission	50	5	43	1,130,743	5,384,548	6,515,291
Melvindale Housing Commission	7	2	1	7,363	374,094	381,457
Melvindale, City of	74	2	48	2,549,841	11,799,498	14,349,339
Menominee County	89	17	60	525,259	8,271,404	8,796,663
Menominee County Road Commission	14	0	9	6,889	1,944,805	1,951,694
Menominee, City of	49	12	44	225,238	5,614,549	5,839,787
Meridian Charter Township	127	15	22	1,464,552	13,270,134	14,734,686
Metamora Township	7	0	0	82,315	117,874	200,189
Michigan Grand River Watershed	0	0	1		16,528	16,528
Michigan South Central Power Authority	48	11	12	328,497	4,631,248	4,959,745
Mid Michigan District Health Department	81	15	32	383,902	4,239,068	4,622,970
Mid Peninsula Library Cooperative	0	1	5	5,378	301,278	306,656
Middleville, Village of	7	2	5	126,921	597,887	724,808
Midland Authority for Central Dispatch	19	1	1	184,216	498,675	682,891

**Schedule of Participating Municipalities - Defined Benefit Plan  
for the Year Ended December 31, 2004**

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Midland County Road Commission	46	1	45	1,042,974	6,852,099	7,895,073
Midland, City of	279	18	227	3,201,583	65,680,843	68,882,426
Mid-Michigan Library League	5	1	0	3,833	424,368	428,201
Milan Library	4	0	1	-	184,242	184,242
Milan, City of	30	6	19	226,322	5,303,370	5,529,692
Milford, Village of	33	5	16	191,282	5,367,261	5,558,543
Millington, Village of	5	1	2	196,899	790,289	987,188
Missaukee County	28	2	3	117,621	1,450,565	1,568,186
Monroe Housing Commission, City of	6	0	0	230,202	520,918	751,120
Montague, City of	15	3	3	391,263	1,252,695	1,643,958
Montcalm County Road Commission	52	1	30	604,392	6,825,662	7,430,054
Montmorency County	55	9	45	44,634	4,430,704	4,475,338
Montmorency-Oscoda-Alpena Solid Waste Management	5	0	0	-	141,662	141,662
Montrose, City of	4	4	2	44,451	281,646	326,097
Mt. Morris, Township of	58	5	33	258,395	10,907,164	11,165,559
Mt. Pleasant, City of	107	19	49	2,481,913	11,086,027	13,567,940
Muir, Village of	3	0	2	21,198	201,421	222,619
Mundy, Charter Township of	19	0	0	249,288	658,819	908,107
Municipal Employees Retirement System of Michigan	68	1	5	423,446	2,106,556	2,530,002
Munising, City of	28	3	22	23,027	4,406,386	4,429,413
Muskegon County	1,139	181	509	4,953,077	124,472,662	129,425,739
Muskegon County Road Commission	88	10	79	422,455	15,757,387	16,179,842
Muskegon Heights, City of	95	13	108	2,497,701	23,782,465	26,280,166
Muskegon Housing Commission	5	0	0	55,321	129,506	184,827
Muskegon, Charter Township of	54	4	33	1,384,991	7,281,892	8,666,883
Negaunee, City of	40	1	39	118,462	6,029,848	6,148,310
Newaygo County	89	21	70	219,395	15,278,840	15,498,235
Newaygo County Mental Health	3	2	4	766	2,008,100	2,008,866
Newaygo Medical Care Facility	153	16	69	1,086,813	6,920,034	8,006,847
Newaygo Soil and Water Conservation District	2	1	0	8,596	42,400	50,996
Newberry, Village of	22	3	19	17,694	2,420,384	2,438,078
Niles District Library	14	0	0	30,102	291,296	321,398
North East Ottawa District Library	4	0	0	-	127,896	127,896
North Houghton County Water and Sewage Authority	3	0	0	-	127,177	127,177
North Michigan Community Mental Health	0	0	1	-	59,817	59,817
North Muskegon, City of	17	3	18	465,787	3,199,064	3,664,851
North Pointe Behavioral Healthcare System	64	23	13	735,270	5,299,479	6,034,749
Northern Lakes Community Mental Health	67	25	44	12,640	13,497,442	13,510,082
Northport, Village of	0	0	1	-	716	716
Northville Charter Township	42	0	3	1,099,229	2,661,245	3,760,474
Northville District Library	14	4	4	-	923,049	923,049
Northville, City of	35	12	42	90,657	9,610,273	9,700,930
Northwest Michigan Community Health	21	13	23	19,917	3,449,920	3,469,837
Northwestern Regional Airport Commission	19	3	4	45,618	1,975,596	2,021,214
Norton Shores, City of	97	10	61	181,262	16,300,393	16,481,655
Norway, City of	32	2	40	812,761	6,605,577	7,418,338
Novi, City of	272	29	55	2,545,362	29,192,132	31,737,494
Oceana County	312	20	78	2,864,822	12,419,700	15,284,522
Ogemaw County	127	18	62	2,288,966	12,257,997	14,546,963
Ogemaw County Road Commission	33	2	32	791,424	3,418,127	4,209,551
Olive Township	3	1	1	42,087	156,515	198,602
Onaway, City of	5	1	1	10,988	325,641	336,629
Ontonagon County	52	17	21	22,723	4,457,596	4,480,319
Ontonagon County Economic Development Corporation	1	0	0	-	66,486	66,486
Ontonagon County Road Commission	50	1	35	-	6,822,645	6,822,645

**Schedule of Participating Municipalities - Defined Benefit Plan  
for the Year Ended December 31, 2004**

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Ontonagon Memorial Hospital	157	8	78	2,258,551	7,489,912	9,748,463
Ontonagon, Village of	13	4	11	29,121	1,675,531	1,704,652
Orchard Lake, City of	12	2	7	70,582	2,450,527	2,521,109
Osceola County	109	20	41	127,365	7,123,780	7,251,145
Osceola County Road Commission	30	3	33	204,776	4,639,027	4,843,803
Oscoda Charter Township	12	1	4	489,070	1,146,919	1,635,989
Oscoda County	60	11	27	426,959	4,310,200	4,737,159
Otisville, Village of	6	1	1	50,547	538,962	589,509
Otsego County	182	24	51	853,052	8,758,427	9,611,479
Otsego County Road Commission	45	3	35	69,981	5,500,531	5,570,512
Ottawa County	936	121	253	5,058,109	90,733,008	95,791,117
Ottawa County Central Dispatch Authority	14	6	1	39,930	1,097,491	1,137,421
Ottawa County Road Commission	138	7	119	1,707,054	26,573,058	28,280,112
Otter Lake, Village of	1	0	0	6,414	25,531	31,945
Owosso, City of	7	0	9	269,920	3,058,137	3,328,057
Oxford Police, Fire, Emergency Medical Commission	6	4	10	64,217	2,528,852	2,593,069
Oxford, Village of	18	1	3	25,052	1,388,568	1,413,620
Parchment, City of	12	1	11	386,681	1,555,497	1,942,178
Pathways	169	66	122	1,403,393	25,266,921	26,670,314
Paw Paw Lake Regional Joint Sewage Disposal Board	4	0	3	120,489	628,865	749,354
Paw Paw, Village of	31	3	11	793,348	4,142,630	4,935,978
Pellston, Village of	3	0	0	26,432	88,214	114,646
Pennfield Charter Township	14	0	3	375,482	336,356	711,838
Pentwater, Village of	9	2	4	188,171	740,331	928,502
Perrinton, Village of	1	0	0	7,168	14,802	21,970
Petersbury, City of	5	0	0	41,491	17,351	58,842
Petoskey, City of	68	9	63	107,842	12,248,619	12,356,461
Pewamo, Village of	2	0	0	7,616	39,615	47,231
Pigeon, Village of	5	1	4	114,935	531,560	646,495
Pinckney, Village of	10	2	1	208,968	843,452	1,052,420
Pinconning, City of	13	1	16	200,990	1,211,255	1,412,245
Pittsfield Charter Township	120	11	11	2,227,706	4,361,552	6,589,258
Pleasant Ridge, City of	13	12	13	22,409	2,507,478	2,529,887
Plymouth District Library	13	0	2	100,042	1,933,474	2,033,516
Plymouth, City of	10	10	61	46,882	9,969,111	10,015,993
Port Austin Area Sewer and Water Authority	0	2	0	44,496	64,294	108,790
Port Austin, Village of	5	2	2	78,559	166,633	245,192
Port Huron, City of	346	30	295	3,618,240	91,634,853	95,253,093
Port Sanilac, Village of	6	2	1	42,904	197,014	239,918
Portland, City of	34	9	27	296,299	5,663,618	5,959,917
Presque Isle County	65	11	35	867,482	4,669,241	5,536,723
Presque Isle County Road Commission	30	1	40	121,017	5,707,403	5,828,420
Pride Youth Programs	2	0	0		265,527	265,527
Ravenna, Village of	4	1	0	15,477	193,355	208,832
Reading, City of	5	2	2		169,236	169,236
Redford Township	148	22	114	513,325	27,356,909	27,870,234
Redford Township District Library	7	4	3	89,600	1,078,302	1,167,902
Reed City, City of	25	11	21	10,366	2,423,236	2,433,602
Richfield Township (Roscommon County)	14	4	6	267,350	833,528	1,100,878
Richfield Township (Genesee County)	14	0	0	338,146	542,807	880,953
Richland Township	12	2	3	106,410	1,144,719	1,251,129
Rochester, City of	61	4	28	2,038,337	9,265,366	11,303,703
Rockford, City of	38	7	9	51,680	2,450,338	2,502,018
Rogers City, City of	28	3	20	636,787	4,765,123	5,401,910
Romeo District Library	22	3	4	215,595	897,428	1,113,023

**Schedule of Participating Municipalities - Defined Benefit Plan  
for the Year Ended December 31, 2004**

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Romco, Village of	26	4	11	148,149	2,831,844	2,979,993
Romulus, City of	84	1	17	2,310,757	10,124,090	12,434,847
Roosevelt Park, City of	16	5	10	59,709	2,461,364	2,521,073
Roscommon County	129	18	48	717,622	9,484,111	10,201,733
Roscommon County Transportation Authority	22	0	0	-	849,583	849,583
Rose City, City of	3	1	2	74,988	395,428	470,416
Rose Township	5	0	6	11,340	195,072	206,412
Royal Oak Township	31	2	15	350,811	4,413,510	4,764,321
Saginaw County	284	81	432	5,160,081	78,140,437	83,300,518
Saginaw County 911 Center	26	6	6	222,183	5,314,625	5,536,808
Saginaw County Community Mental Health Authority	48	39	48	207,177	9,974,097	10,181,274
Saginaw County Road Commission	85	6	87	2,674,952	19,184,456	21,859,408
Saginaw Public Libraries	18	1	0	106,200	366,861	473,061
Saginaw Township	31	2	13	787,405	7,323,786	8,111,191
Saginaw Transit System Authority	12	5	0	95,407	629,153	724,560
Saginaw, City of	224	22	442	6,975,518	67,611,801	74,587,319
Saginaw-Midland Municipal Waste and Soil Commission	11	0	17	188,139	2,169,025	2,357,164
Saline, City of	69	13	37	235,281	9,723,788	9,959,069
Sandusky District Library	2	1	0	25,921	54,428	80,349
Sandusky, City of	23	1	8	315,904	700,070	1,016,974
Saugatuck Township	6	1	5	6,281	550,523	556,804
Saugatuck, City of	6	4	5	26,391	866,713	893,104
Sault Ste. Marie, City of	93	2	72	3,486,040	14,953,005	18,439,045
Schoolcraft County	172	15	62	1,687,933	11,668,281	13,356,214
Schoolcraft County Road Commission	30	0	33	148,617	6,006,210	6,154,827
Schoolcraft Memorial Hospital	83	16	52	2,498,543	9,159,030	11,657,573
Sebewaing, Village of	19	1	19	612,813	3,356,034	3,968,847
Shepherd, Village of	6	2	0	65,937	273,446	339,383
Shiawassee Council on Aging	8	0	3	99,411	268,477	367,888
Shiawassee County	658	123	237	1,257,813	50,627,654	51,885,467
Shiawassee County Road Commission	48	3	44	1,248,967	9,027,196	10,276,163
Shiawassee District Library	7	0	1	287,076	911,584	1,198,660
Sims Whitney Utilities Authority	2	1	0	-	84,288	84,288
Smart	993	151	395	6,054,770	105,154,379	111,209,149
South East Oakland County Research Recovery Authority	22	4	27	80,834	4,185,329	4,266,163
South East Oakland County Water Authority	24	1	18	100,715	4,282,305	4,383,020
South Haven Emergency Service Authority	12	0	1	785,754	1,122,243	1,907,997
South Haven, City of	75	4	70	2,232,961	16,527,808	18,760,769
South Lyon, City of	49	2	15	364,288	4,235,926	4,600,214
Southeast Michigan Council of Governments	75	27	32	59,826	22,214,359	22,274,185
Southern Clinton County Municipal Utilities Authority	17	6	3	461,948	1,223,236	1,685,184
Sparta, Village of	19	1	5	252,391	1,064,218	1,316,609
Springfield, City of	33	4	30	798,285	5,883,600	6,681,885
St. Charles, Village of	10	3	6	127,833	1,346,668	1,474,501
St. Clair Area Fire Authority	1	0	0	-	42,673	42,673
St. Clair Shores Housing Commission	8	1	3	214,157	681,083	895,240
St. Clair, City of	47	3	30	716,174	7,621,156	8,337,330
St. Ignace, City of	35	4	16	84,608	4,107,532	4,192,140
St. Johns, City of	39	6	30	240,040	8,016,533	8,256,573
St. Joseph County	48	1	13	343,556	7,169,103	7,512,659
St. Louis Housing Commission	4	0	0	-	164,411	164,411
St. Louis, City of	18	9	28	509,571	4,403,650	4,913,221
Stambaugh Township	1	0	1	8,337	45,830	54,167
Standish, City of	6	5	6	61,135	1,202,733	1,263,868
Stanton, City of	0	1	1	14,241	70,255	84,496

**Schedule of Participating Municipalities - Defined Benefit Plan  
for the Year Ended December 31, 2004**

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Stephenson, City of	3	0	1	-	70,124	70,124
Sterling, Village of	1	0	1	17,651	166,905	184,556
Stockbridge, Village of	3	0	2	40,030	123,719	163,749
Summit Township	37	1	13	172,881	4,929,729	5,102,610
Sumpter Township	15	1	4	516,438	513,286	1,029,724
Superior Charter Township	23	1	2	820,617	1,062,871	1,883,488
Superiorland Library Cooperative	3	1	0	116,074	438,853	554,927
Swan Creek Township	6	0	2	53,389	173,818	227,207
Swartz Creek, City of	16	1	14	419,534	6,075,307	6,494,841
Sylvan Lake, City of	9	0	9	290,160	1,148,844	1,439,004
Tawas Police Authority	5	1	1	140,359	138,286	278,645
Taylor Housing Commission	5	0	0	32,485	54,933	87,418
Thirty-Fifth District Court	14	0	1	1,501,027	411,865	1,912,892
Thirty-Fourth District Court	30	0	0	1,468,892	178,275	1,647,167
Three Rivers Hospital	0	0	5	-	18,458	18,458
Three Rivers, City of	71	9	30	1,106,449	7,371,811	8,478,260
Traverse Area District Library	47	0	9	17,407	1,864,615	1,882,022
Traverse City, City of	154	19	129	906,123	32,492,432	33,398,555
Trenton, City of	65	5	107	3,358,339	24,976,853	28,335,192
Tri-County Aging Consortium	78	11	26	26,034	4,728,462	4,754,496
Trio Council on Aging	0	4	0	18,978	227,356	246,334
Tuscarora Township	8	0	2	28,785	390,042	418,827
Tuscola County	156	13	81	2,749,725	14,654,385	17,404,110
Tuscola County Community Mental Health	118	16	15	2,070,626	5,470,912	7,541,538
Tuscola County Health Department	34	3	10	795,178	3,759,543	4,554,721
Tuscola County Medical Care Facility	198	12	53	2,105,138	6,490,424	8,595,562
Tuscola County Road Commission	19	2	7	506,014	1,548,761	2,054,775
Twenty Sixth Judicial Circuit Court	27	10	8	23,890	2,138,208	2,162,098
Twenty Third Judicial District Court	17	3	2	424,839	1,265,312	1,690,151
Twin Cities Public Safety Authority	0	3	0	45,048	37,299	82,347
Ubly, Village of	4	0	0	196,048	85,765	281,813
Utica, City of	22	0	2	648,301	1,178,657	1,826,958
Van Buren County	101	1	4	2,823,245	1,458,535	4,281,780
Van Buren District Library	12	0	0	358,109	78,610	436,719
Van Buren Township	32	0	0	1,220,869	1,031,928	2,252,797
Vassar, City of	23	3	16	505,890	3,072,637	3,578,527
Vicksburg District Library	1	0	1	-	36,433	36,433
Vicksburg, Village of	12	2	8	-	1,210,374	1,210,374
Wakefield, City of	18	1	26	438,014	2,443,923	2,881,937
Walled Lake, City of	44	6	16	870,566	1,733,179	2,603,745
Washtenaw County	263	6	7	6,778,621	10,530,134	17,308,755
Washtenaw County Road Commission	148	7	100	4,457,000	20,072,843	24,529,843
Wayland, City of	19	7	7	74,303	2,284,104	2,358,407
Webberville, Village of	2	1	1	52,417	28,413	80,830
West Branch, City of	21	2	9	458,419	1,738,761	2,197,180
West Iron County Sewer Authority	4	1	1	32,704	459,068	491,772
West Michigan Community Mental Health System	9	5	17	162,920	4,198,024	4,360,944
West Michigan Shoreline Regional Development Commission	10	5	1	25,833	2,894,649	2,920,482
Western Upper Peninsula District Health Department	89	27	43	5,887	6,207,185	6,213,072
Westland, City of	212	22	198	441,277	45,554,512	45,995,789
Westphalia, Village of	2	0	1	-	227,436	227,436
Wexford County	137	14	56	1,656,970	9,774,123	11,431,093
Wexford County Road Commission	41	3	30	187,121	5,759,454	5,946,575
White Cloud Community Library	3	1	0	30,526	127,236	157,762
White Cloud, City of	5	2	2	-	302,025	302,025

**Schedule of Participating Municipalities - Defined Benefit Plan  
for the Year Ended December 31, 2004**

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
White Lake Charter Township	79	2	14	3,156,459	5,948,691	9,105,150
White Pine Library	3	0	3	15,516	90,347	105,863
Whitehall, City of	23	3	14	15,444	2,965,531	2,980,975
Willard Public Library	24	1	0	178,757	326,603	505,360
Williamston, City of	21	3	11	401,774	1,651,195	2,052,969
Wixom, City of	65	10	21	888,118	8,225,791	9,113,909
Wolverine Lake, Village of	12	1	4	268,816	381,008	649,824
Ypsilanti Community Utilities Authority	132	13	65	973,035	20,708,983	21,682,018
Ypsilanti, City of	71	4	48	1,343,722	13,960,578	15,304,300
Ypsilanti, Township of	90	8	33	1,725,497	7,896,607	9,622,104
Total Number of Members and Reserves	36,772	5,301	19,273	\$ 434,232,821	\$ 4,185,262,840	\$ 4,619,495,661
Average Size of Municipalities Members and Reserves	60	9	31	\$ 706,070	\$ 6,805,305	\$ 7,511,375

**Schedule of Participating Municipalities - Defined Contribution Plan  
for the Year Ended December 31, 2004**

<b>Name</b>	<b>Number of Members</b>	<b>Defined Contribution Plan Balance</b>
Albion, City of	24	\$ 213,183
Alcona County	43	190,070
Allegan County	609	13,853,536
Alma, City of	8	118,496
Alpena General Hospital	397	4,550,132
Augres, City of	3	35,803
Baraga County Memorial Hospital	32	596,997
Bay City, City of	175	9,581,251
Bay City Housing Commission	10	719,532
Beaverton, City of	1	5,082
Belding, City of	1	18,116
Big Rapids Housing Commission	9	102,277
Big Rapids, City of	19	708,769
Charlotte, City of	1	34,260
Cheboygan County Road Commission	1	25,776
Chelsea Area Construction	2	47,493
Chelsea, Village of	25	368,779
Clawson, City of	13	382,995
Clinton County	3	66,409
Clinton-Eaton-Ingham Community Mental Health	10	570,757
Coldwater Board of Public Utilities	19	373,533
Coldwater, City of	50	1,713,296
District Health Dept #10	128	3,003,989
District Health Dept #2	32	321,289
District Health Dept #4	21	310,642
East Grand Rapids, City of	72	5,418,423
East Lansing, City of	196	3,562,371
Elkton, Village of	3	69,353
Emmet County Road Commission	31	812,987
Farmington Community Library	36	494,337
Flint Charter Township	29	1,054,028
Gladstone, City of	22	611,666
Grand Rapids Housing Commission	62	1,146,466
Grand Traverse County	323	7,334,113
Grand Traverse County Road Commission	48	1,460,473

**Schedule of Participating Municipalities - Defined Contribution Plan  
for the Year Ended December 31, 2004**

<b>Name</b>	<b>Number of Members</b>	<b>Defined Contribution Plan Balance</b>
Grandville, City of	15	\$ 1,875,021
Gratiot County	54	901,084
Grayling, City of	9	75,914
Helen Newberry Joy Hospital	251	337,776
Hiawatha Behavioral Health	64	481,991
Highland Park Housing Commission	8	339,070
Highland Park, City of	101	2,696,599
Holland Board of Public Works	25	419,876
Holland, City of	63	2,577,943
Howell Downtown Development Authority, City of	3	21,324
Hudsonville, City of	15	549,144
Huntington Woods, City of	30	478,341
Ingham County Capital Area District Library	57	378,560
Iosco Steelworkers #10	25	117,682
Isabella County	22	91,801
Isabella County Medical Care Facility	9	12,799
Isabella, County of	1	5,498
Lake Erie Transportation Commission	6	6,542
Lakeland Library Co-op	1	48,782
Livingston County	52	409,302
Mackinac County	7	30,374
Manistee, City of	1	34,117
Marquette Board of Light and Power	5	156,048
Marquette County	117	4,145,250
Marquette County Health Department	40	873,806
Marquette County Transit Authority	1	17,025
Marquette, City of	14	1,114,805
Mecosta County	83	681,776
Mid-Michigan District Health Department	1	24,201
Milan, City of	22	236,858
Milford, Village of	18	779,788
Montcalm County	68	1,467,034
Montrose Township	14	78,530
Newaygo County	143	2,784,360
Newaygo County Mental Health Center	62	1,828,379

**Schedule of Participating Municipalities - Defined Contribution Plan  
for the Year Ended December 31, 2004**

Name	Number of Members	Defined Contribution Plan Balance
Northern Lakes Community Mental Health	227	\$ 4,567,191
Northpointe Behavioral Health	2	27,266
Northville, City of	21	477,815
Northwest Michigan Community Health	158	5,521,637
Oakview Medical Care Facility	31	93,421
Orchard Lake, Village of	3	44,632
Ottawa County General Dispatch	25	239,187
Pathways	197	1,447,743
Plymouth, City of	81	7,447,630
Romeo District Library	4	12,807
Roscommon, Village of	6	77,785
Saginaw County	512	21,809,310
Saginaw County 911	15	468,949
Saginaw County Community Mental Health	218	5,560,075
Saginaw, City of	95	1,737,369
Saginaw-Midland Municipal Water Corp	4	42,326
Schoolcraft Memorial Hospital	127	2,454,458
Southfield Downtown Authority	6	102,017
St. Johns, City of	1	3,805
St. Louis, City of	18	220,823
Standish, City of	4	39,353
West Michigan Community Health	134	5,733,890
Total Number of Members and Balances	5,754	\$ 144,083,571
Average Size of Municipalities Members and Balances	63	\$ 1,566,126

**Schedule of Participating Municipalities - Health Care Savings Program  
for the Year Ended December 31, 2004**

<b>Name</b>	<b>Balance Reserve for Employee Contributions</b>	<b>Balance Reserve for Non Vested Employee Contributions</b>	<b>Total Reserves</b>
Community Mental Health of Central Michigan	\$ 1,120,554		\$ 1,120,554
Hiawatha Community Mental Health Authority	15,520		15,520
Kingsford, City of	2,392		2,392
Newaygo County	320,933	\$ 28,923	349,856
Schoolcraft County	7,311		7,311
St. Louis, City of	1,009		1,009
Wexford County Road Commission	6,574		6,574
<b>Total Amounts of Reserves</b>	<b>\$ 1,474,293</b>	<b>\$ 28,923</b>	<b>\$ 1,503,216</b>
 <b>Average Size of Municipalities Reserves</b>	 <b>\$ 210,613</b>	 <b>\$ 28,923</b>	 <b>\$ 214,745</b>

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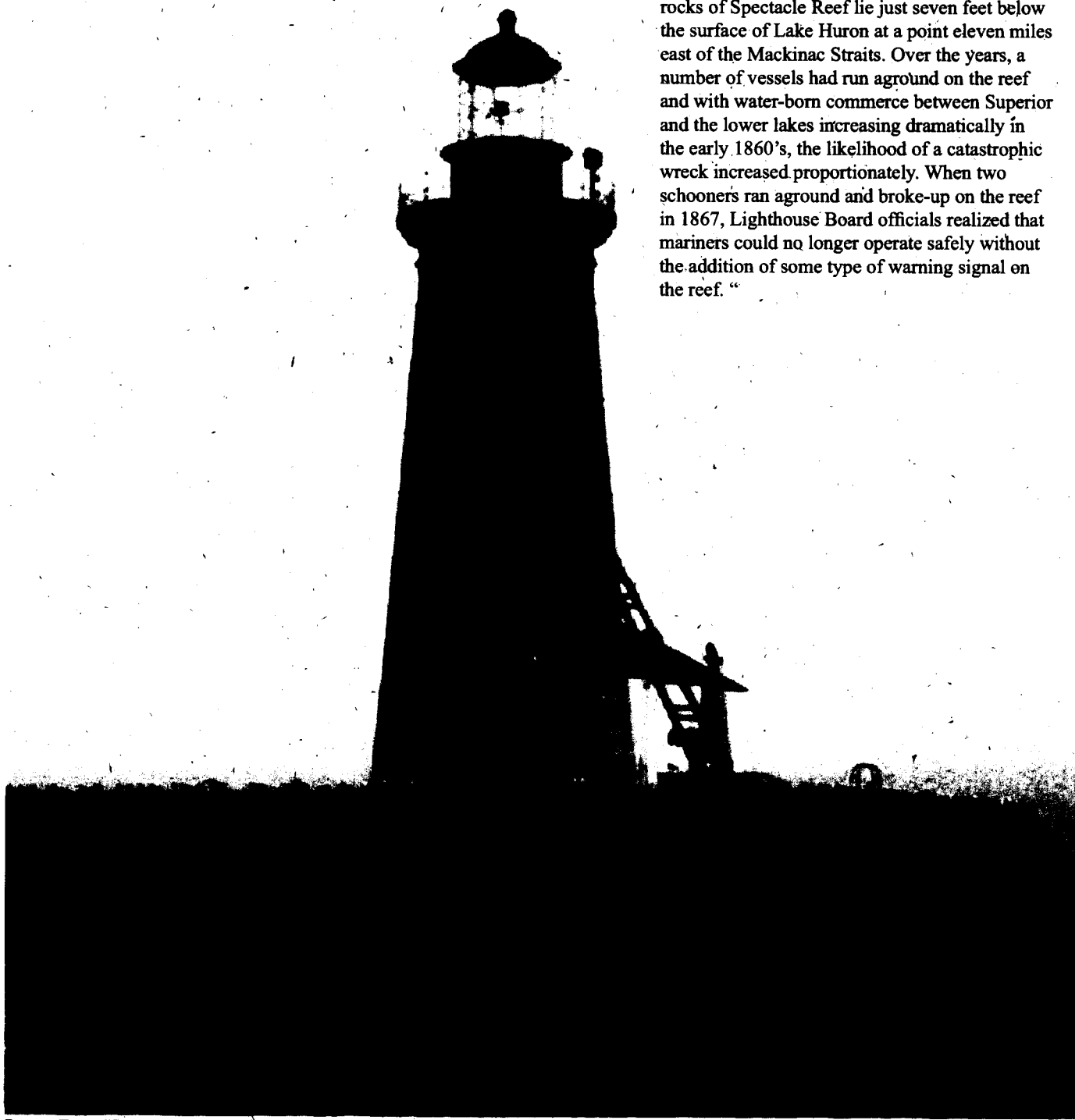
**Schedule of Participating Municipalities - Retiree Health Funding Vehicle**  
for the Year Ended December 31, 2004

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<b>Name</b>	<b>Balance Reserve for Employer Contributions</b>
Community Mental Health of Central Michigan	\$ 1,053,061
Dowagiac, City of	175,024
Saline, City of	193,138
Total Amounts of Reserves	<u>\$ 1,421,223</u>
 Average Size of Municipalities Reserve	 <u>\$ 473,741</u>

### *Spectacle Reef Lighthouse*

"Resembling a pair of eyeglasses in shape, the rocks of Spectacle Reef lie just seven feet below the surface of Lake Huron at a point eleven miles east of the Mackinac Straits. Over the years, a number of vessels had run aground on the reef and with water-borne commerce between Superior and the lower lakes increasing dramatically in the early 1860's, the likelihood of a catastrophic wreck increased proportionately. When two schooners ran aground and broke-up on the reef in 1867, Lighthouse Board officials realized that mariners could no longer operate safely without the addition of some type of warning signal on the reef. "



Pepper, Terry. "Spectacle Reef Lighthouse," *Seeing the Light: The Lighthouses of Lake Huron*, March 15, 2005. <http://www.terrypepper.com/lights/huron/spectacle/spectacle.htm>>. June 17, 2005.